GREAT LAKES BULK CARGO VESSELS CONSTRUCTION AND MAINTENANCE

UNIVERSITY OF MICHIGAN

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MAIN READING ROOM

HEARINGS

BEFORE THE

SUBCOMMITTEE ON MERCHANT MARINE

OF THE

COMMITTEE ON MERCHANT MARINE AND FISHERIES HOUSE OF REPRESENTATIVES

EIGHTY-FOURTH CONGRESS

SECOND SESSION

ON

H. R. 8886, H. R. 8894, H. R. 8896, H. R. 9008, H. R. 9030, and H. R. 9096

TO ENCOURAGE CONSTRUCTION AND MAINTENANCE OF MODERN GREAT LAKES BULK CARGO VESSELS IN THE INTEREST OF PEACETIME COMMERCE AND THE NATIONAL DEFENSE

JUNE 4 AND 18, 1956

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GREAT LAKES BULK CARGO VESSELS CONSTRUCTION AND MAINTENANCE

MONDAY, JUNE 4, 1956

HOUSE OF REPRESENTATIVES,
SUBCOMMITTEE ON MERCHANT MARINE OF THE
COMMITTEE ON MERCHANT MARINE AND FISHERIES,
Washington, D. C.

The committee met at 10 a. m., Hon. Herbert C. Bonner (chairman) presiding.

The CHAIRMAN. Gentlemen, we will now take up several bills: H. R. 8886 by Mr. Baumhart of Ohio, which is identical with H. R. 8996 by Mr. Minshall of Ohio, H. R. 9008 by Mr. Kearns of Pennsylvania, H. R. 9030 by Mr. Ashley of Ohio, H. R. 9096 by Mr. Van Pelt of Wisconsin, also similar to H. R. 8894 by Mr. Cederberg of Michigan.

(The bill referred to is as follows.)

[H. R. 8886, 84th Cong., 2d sess.]

A BILL To encourage construction and maintenance of modern Great Lakes bulk cargo vessels in the interest of peacetime commerce and the national defense

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled, That section 510 of the Merchant Marine Act, 1936, as amended, is further amended as follows:

(i) The Secretary of Commerce is authorized (subject to the provisions of this section) to acquire an obsolete Great Lakes vessel or vessels in exchange for an allowance of credit to be applied upon the purchase price of a new vessel. A vessel shall be considered an "obsolete vessel" for purposes of this subsection if it (1) is enrolled and licensed under the laws of the United States for trade on the Great Lakes and has been so enrolled and licensed for a period of at least ten years; (2) is designed to transport in such trade dry bulk commodities such as iron ore, limestone, grain, or coal; (3) is of not less than three thousand gross tons; and (4) is owned by a citizen or citizens of the United States and has been so owned by such citizen or citizens for at least three years immediately prior to the date of acquisition hereunder. A vessel shall be considered a "new vessel" for purposes of this subsection if it (1) is constructed after January 1, 1956, in a Great Lakes shipyard within the United States; (2) is capable by reason of design of transporting bulk commodities such as iron ore, limestone, grain or coal between ports on the Great Lakes, including the whole of the River St. Lawrence and the Gulf St. Lawrence as far east as a line drawn north and south through the west end of Anticosti Island; and (3) is documented under the laws of the United States.

The allowance of credit for an obsolete vessel or vessels acquired under this subsection may equal but shall not exceed the excess, as determined by the Secretary, of the fair and reasonable cost of constructing the new vessel (excluding the cost of any features incorporated in the vessel for national defense use, which shall be paid by the United States) over the fair and reasonable estimate of cost of constructing the new vessel, if it were constructed under similar plans and specifications (excluding national defense features as above provided), in the lowest cost foreign yard where vessels have been built or are likely to be built, as found by the Secretary, for engaging in the transportation of any bulk commodity in competition with any Great Lakes United States vessel, whether the movement of such commodity be over the Great Lakes or other waters. Nothing in this subsection

shall be construed as restricting the trade in which such new vessel may be used. With respect to a new vessel, the construction of which was contracted for after January 1, 1956, but before the effective date of this subsection, such allowance may be paid to the owner notwithstanding the provisions of subsection (b). The full credit on the cost of the new vessel shall be allowed only upon the trade-in of an obsolete vessel or vessels having gross tonnage at least equal to or greater than that of the new vessel, provided that the gross tonnage of such obsolete vessel or vessels may exceed the gross tonnage of the new vessel in a ratio of not in excess of one and twenty-five one-hundredths to one, if the Secretary finds that the new vessel, although of lesser tonnage, will provide utility value equal to or greater than that of the obsolete vessel or vessels. If the gross tonnage of the obsolete vessel or vessels is less than that of the new vessel, the allowance of credit shall be reduced proportionately. If the gross tonnage of such obsolete vessel or vessels exceeds the gross tonnage of the new vessel, then, subject to the provisions of subsection (c) of this section, an additional allowance of credit shall be determined with respect to such excess in accordance with the provisions of subsection (d) of this section.

Any obsolete vessel acquired by the United States under the provisions of this subsection shall be placed in a national defense reserve fleet of Great Lakes vessels, subject to the provisions of section 1744 of title 50 of Appendix, unless, in the opinion of the Secretary, it is of insufficient value for commercial or military operations to warrant its further preservation.

Except as they may be inconsistent with this subsection, all the provisions of subsections (a) through (g) shall be applicable to the acquisition of obsolete vessel or vessels as provided in this subsection.

(Letters from Commerce and Navy Departments follow:)

THE SECRETARY OF COMMERCE,
Washington, D. C., April 30, 1956.

Hon. HERBERT C. BONNER,
Chairman, Committee on Merchant Marine and Fisheries,
House of Representatives, Washington D. C.

DEAR MR. CHAIRMAN: This is in reply to your requests of February 2, 1956, for the views of this Department with respect to H. R. 8886, a bill to encourage construction and maintenance of modern Great Lakes bulk cargo vessels in the interest of peacetime commerce and the national defense, and H. R. 8894, a bill to encourage construction and maintenance of Great Lakes cargo vessels for peacetime and national defense use.

The bills would amend section 510 of the Merchant Marine Act, 1936, as amended, by adding a new subsection which would authorize the Secretary of Commerce to accept, as tradeins, obsolete Great Lakes vessels in return for allowances of credit on new vessels. The allowance provided for in the bills is the difference between the American cost and the estimated foreign cost of building the new vessel. This allowance is similar to the amount of construction-differential subsidy that can be granted under title V of the Merchant Marine Act, 1936, to aid in the construction of vessels which are to operate in the foreign trade except that the allowance is not limited to 50 percent of the construction cost of the vessel, and the bills make no provision for repayment to the United States of any part of the allowance if the vessel is used in the domestic trade. The bills specifically provide that no trading restrictions shall be placed on the vessel.

Section 510 now authorizes the Secretary of Commerce to accept as trade-ins obsolete vessels, including Great Lakes vessels, which are at least 12 years old, in return for an allowance of credit equal to the value of such vessels. To the extent that the bills authorize an allowance in excess of the value of the vessels, it would in effect provide construction-differential subsidy to aid in the construction of vessels that could be operated exclusively in the domestic trade. Such subsidy would be based upon the difference between American and foreign costs, but the resulting new vessel could be operated exclusively in a trade in which there is no foreign competition.

It appears that the principal concern of the sponsors of this legislation centers in the ore-transportation problem. A large fleet of specialized ore carriers has been developed to move iron ore from the Lake Superior area to the lower lakes ports. However, this fleet is composed largely of old ships, many of which are obsolete. Of the 356 Great Lakes bulk cargo carriers, 302 are over 25 years old and, by 1960, approximately 60 percent of them will be at least 50 years old. But even though this fleet of vessels is so old, no orders for tonnage of a major

type have been placed currently with any Great Lakes shipbuilding yard. There is need for a sound, long-range modernization program for the Great Lakes fleet of bulk carriers which are so important in the transportation of such large quantities of iron ore, coal, limestone, and grain.

Imports of iron ore produced in foreign countries are transported by both American-flag and foreign-flag vessels. The United States merchant marine operating in foreign trade includes 11 ore carriers of 256,000 deadweight tons, which were built between 1946 and 1948. Of those 11 vessels, 8 are owned by the Bethlehem Steel Corp., and 3 are owned by the Ore Transport Co. In 1954, these vessels transported the bulk of the iron ore brought into our country by American-flag vessels—all but 335,000 tons.

Of the 13,801,000 tons or iron ore imported by the United States and carried by ocean-going vessels, American-flag vessels carried 4,895,000 tons, or 35.5 percent, and foreign-flag vessels carried 8,906,000, or 64.5 percent. However, the percentage of United States ore imports carried by foreign-flag vessels is bound to increase unless additional bulk ore carriers are built for United States registry. At present, there are no such vessels under construction for United States registry, while there are 83 bulk carriers of almost 1,800,000 deadweight-tons for foreign-flag registry under construction in world shipyards. Of the ore carriers under construction or on order in foreign shipyards, 22 of 676,000 deadweight-tons are being built for the account of American owners who intend to register them in foreign countries.

In view of this situation, the Secretary of Commerce wrote the major ore-importing companies informing them of his concern that such a large proportion of the bulk-ore imports was being transported in foreign-flag vessels. He asked them to explore the possibility of using American-flag bulk-cargo vessels and to indicate their interest in building and operating such vessels. In addition, he informed them that construction-differential subsidy aid could be made available in order to place United States construction costs on a parity with foreign construction costs.

Replies to this letter were received from most of the companies. While some of them indicated that they had no interest in the matter, the remainder stated that the high cost of owning and operating ships under United States registry constituted a most serious obstacle and that they were compelled to use foreign-flag ships, usually on a charter basis, in order to maintain a competitive position. However, there are indications that several of these ore importers would be willing to operate United States-flag bulk-ore vessels which could be operated at costs comparable to those of foreign-flag vessels.

The shipbuilding potential of Great Lakes shipyards will provide a significant wartime mobilization nucleus. At present, there are 15 ways on the Lakes capable of building vessels of as much as 18,000 to 20,000 deadweight-tons. These 15 ways may produce up to 15 ships each year. In addition, shipyards on the Canadian side of the Lakes will provide a valuable supply of shipbuilding facilities in time of national emergency.

The Maritime Administration has developed a ship-design program which at present includes seven different vessel types. This program is designed to provide a broad basis for the purpose of establishing the physical characteristics desirable in ships which will comprise the future American merchant marine. It includes the design plans for a dry cargo bulk vessel which is intended to be not only a carrier of ore but also of other dry-bulk commodities, including bauxite, grain, and coal.

We realize that the development of the St. Lawrence seaway has resulted in increased American interest in the ore trade. We anticipate that the opening of the St. Lawrence seaway will make Labrador ore more competitive with Lake Superior ore, and that foreign-flag ships will undoubtedly seek to capture the Labrador-United States movement. We recognize that any new Great Lakes replacement vessels would be largely engaged in domestic traffic within the Great Lakes, although they would probably spend part of their time in a Canadian-United States ore and grain movement. Owners will desire to have this flexibility of use to engage partly in foreign commerce of the United States and partly in domestic commerce.

The Department of Commerce study entitled "A Review of the Coastwise and Intercoastal Shipping Trades," published in December 1955, concluded that there is no present need or justification for construction-differential subsidy to aid in the acquisition of vessels to be operated in the coastwise and intercoastal trades. Though this study did not deal specifically with the coastwise trade on the Great Lakes, the conclusion is applicable to such trade.

The Department recommends against favorable consideration of the measure.

The Bureau of the Budget has advised that it would interpose no objection to the submission of this letter to your committee.

Sincerely yours,

SINCLAIR WEEKS,
Secretary of Commerce.

DEPARTMENT OF THE NAVY,
OFFICE OF THE JUDGE ADVOCATE GENERAL,
Washington, D. C., May 31, 1956.

Hon. HERBERT C. BONNER,
Chairman, Committee on Merchant Marine and Fisheries,
House of Representatives, Washington, D. C.

MY DEAR MR. CHAIRMAN: Your request for comment on H. R. 8886, a bill to encourage construction and maintenance of modern Great Lakes bulk cargo vessels in the interest of peacetime commerce and the national defense, and H. R. 8894, a bill to encourage construction and maintenance of Great Lakes cargo vessels for peacetime and national fefense use, has been assigned to this Department for the preparation of a report thereon expressing the views of the Department of Defense.

These bills would authorize the Secretary of Commerce to acquire obsolete Great Lakes vessels in exchange for an allowance of credit to be applied upon the purchase price of a new vessel constructed in a Great Lakes shipyard. The obsolete vessels acquired thereby would be placed in a national defense reserve fleet of Great Lakes vessels unless they are of insufficient value to warrant further preservation.

The construction of new Great Lakes vessels under these bills would increase shipbuilding in the Great Lakes area and, accordingly, aid in the maintenance of an adequate mobilization shipbuilding base. On the other hand, however, by their trade-in and build provisions, the bills would grant important and preferential ship construction subsidies to Great Lakes domestic carriers as opposed to domestic carriers engaged in coastal and intercoastal trade. The bills further provide that Great Lakes vessels shall be declared obsolescent and placed in the National Defense Reserve Fleet after reaching an age of 10 years in contrast to the present standard of obsolescence of 20 years for ocean-going vessels and 60 years for Great Lakes vessels operating exclusively in fresh water.

Because the general provisions of the bills relate primarily to matters within the cognizance of the Maritime Administration, the Department of the Navy, on behalf of the Department of Defense, refrains from further comment or recommendation and defers to the views of the Department of Commerce as to the desirability of enactment of these bills.

From the standpoint of technical accuracy these bills should be revised to conform to the language fo S. 3108, a bill of identical substance.

This report has been coordinated within the Department of Defense in accordance with procedures prescribed by the Secretary of Defense.

The Department of the Navy has been advised by the Bureau of the Budget that there is no objection to the submission of this report on H. R. 8886 and H. R. 8894 to the Congress.

Sincerely yours,

W. R. SHEELEY,
Rear Admiral, United States Navy,
Acting Judge Advocate General of the Navy
(For the Secretary of the Navy).

The CHAIRMAN. Our first witness will be our colleague, Hon. Carroll Kearns, author of H. R. 9008.

STATEMENT OF HON. CARROLL D. KEARNS, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF PENNSYLVANIA

Mr. KEARNS. I appear before this committee in support of H. R. 9008, which is a companion bill to one introduced by my distinguished colleague from Ohio, Mr. Baumhart.

I appreciate this opportunity of appearing before you.

In my opinion, this legislation is vitally needed to maintain and preserve an adequate fleet of United States-flag bulk-cargo vessels on the Great Lakes. Once the St. Lawrence seaway is completed the Great Lakes will be the northern seaboard of the United States.

If any of you gentlemen had the opportunity of seeing the television program, Wide Wide World, yesterday, which depicted the future of the Great Lakes, you got a very clear idea of what the shipping is going to be in the future there.

Our people stand to gain untold benefits from direct Great Lakes to overseas shipping. It must be remembered, however, that the seaway will also open to the vessels of all nations the international trade between the United States and Canada, which now amounts to nearly 30 million tons annually, and is growing from year to year.

Because of the decided cost advantage which foreign-flag vessels enjoy over United States-flag vessels, it is readily apparent that, unless some type of aid is given the American-flag Great Lakes operator, he will be driven from his trade entirely.

It has long been the policy of the United States to foster, develop and encourage the maintenance of a merchant marine sufficient to carry our domestic waterborne commerce as well as a substantial portion of our foreign commerce. This policy should now be made equally applicable to the Great Lakes. In the event of an all-out war, Great Lakes vessels will be vitally needed to move the iron ore and other basic bulk commodities consumed by heavy industry over routes that can be protected against any enemy.

Enactment of H. R. 9008 would be in the national interest. It is designed to meet the particular problem which has arisen upon the Great Lakes. We must recognize the importance of the Great Lakes shipping industry and the need for maintaining that industry.

H. R. 9008 would go a long way toward preserving shipbuilding on the Great Lakes and insure employment for Great Lakes seamen for many years to come.

That concludes my testimony. I would be glad to answer any questions.

Mr. ALLEN. Congressman, would these vessels run in interstate trade or international trade?

Mr. KEARNS. I think that there would have to be two veins of thought, Mr. Allen. You might have to go in on interstate with the provision they would eventually move into the international aspect.

Mr. CEDERBERG. Rather than take up the time of any of the other witnesses, I would like to have permission to file a statement in the record.

The CHAIRMAN. It is so ordered.

(The statement referred to is as follows:)

STATEMENT OF HON. ELFORD A. CEDERBERG, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF MICHIGAN

Mr. Chairman and my colleagues on this committee, I very much appreciate the opportunity of appearing here this morning to make a statement in behalf of my bill, H. R. 8894, and similar bills of my colleagues all of which are designed and intended to encourage the construction of modern Great Lakes cargo vessels. I represent one of the Great Lakes States and my home town of Bay City, Mich., is a lake shore city so I am vitally interested in the future of Great Lakes shipping.

Few people realize the magnitude and importance of the Great Lakes bulk-cargo fleet. From the standpoint of tonnage carried, employment, and invest-

ment, it is a major element in the economy of the Midwest and has contributed immeasurably to the growth and protection of the Nation.

If, in the future, we are to have a strong bulk-cargo fleet on the Great Lakes capable of carrying the quantities of iron ore, coal, limestone, and grain essential to our expanding industrial economy and the national defense, the need for legislation such as that now being considered is beyond question.

Low-cost Canadian vessels are already driving the United States-flag vessel from the international trade in bulk commodities between the United States and Canada. Once the St. Lawrence seaway is completed the vessels of all nations will be able to enter this commerce. These vessels will have an even greater advantage, because of their lower costs, than have Canadian vessels.

Because the international traffic in bulk commodities is so closely interwoven with the domestic trades, any use of foreign-flag vessels will have an adverse effect upon United States-flag vessels in any Great Lakes trade. Consequently there can be little expectation that American operators will undertake new construction unless some provision is made whereby they can obtain new vessels at parity with their foreign-flag competitors.

Unless sufficient modern American-flag vessel capacity is available upon the opening of the St. Lawrence seaway, foreign-flag operators will become entrenched in the traffic between the United States and Canada. It will then be too late. The time to build a modern, efficient Great Lakes fleet is now. The bulk of the Great Lakes fleet is composed of vessels already 50 years or more old. As a sponsor of H. R. 8894, a bill similar to S. 3108, I believe this legislation is necessary to encourage Great Lakes vessel operators to undertake new construction so vitally needed at the present time.

Mr. BAUMHART. I would like to have the same opportunity to file a statement for the record.

The CHAIRMAN. Without objection it will be filed at this point in the record.

(The statement referred to is as follows:)

STATEMENT OF CONGRESSMAN A. D. BAUMHART, JR. (13TH OHIO DISTRICT)

Foreign shipping competition—both present and prospective—is of alarming concern to all shipping interests on the Great Lakes—to lake carriers, the inland shipbuilding industry, and labor. In my opinion it should be a matter of national concern.

There is justifiable cause for such alarm. We need only take note of how much ground United States-flag vessels have lost in transporting bulk commodities between the United States and Canada over the last 30 years. In 1925 United States–Canada commerce in bulk commodities (iron ore, coal, limestone, and grain) amounted to 9.9 million tons, 76 percent of which was carried in American holds. In 1955 this annual commerce had increased to 23.25 million tons, to which may be added 4.75 million tons of other commodities. Yet last year American vessels were carrying only 29 percent of this greatly expanded commerce. American vessels cannot effectively compete to carry these bulk cargoes when it is so much cheaper for rival foreign-flag vessels to be built and operated.

Ore-consumption figures also point up dismal prospects for our inland bulk cargo fleet. During 1955 Ontario and Quebec-Labrador ores moved into the United States in the amount of about 10 million tons, and within 5 years this figure is expected to double. By 1970 only about half of the iron ore required by our Nation's steel industry will be supplied domestically from the Lake Superior district, which formerly supplied 85 percent of our steel industry needs. By then South America, Africa, and other overseas ore sources will probably supply us with more ore than even Canada.

Since United States-Canada and other foreign commerce is open to vessels of all countries, completion of the St. Lawrence seaway will expose United States-flag vessels to even stronger competition than now confronts them—unless something is done soon to put American vessels in a better position to compete with foreign rivals who have vastly lower construction and operating costs.

Under present conditions our Great Lakes flag fleet is growing old and obsolete, while our foreign competitors are able to build newer and larger bulk cargo vessels which will soon be able to operate on the Great Lakes via the seaway. There are 343 United States flag vessels operating on the Great Lakes today, representing a total trip capacity of 3.38 million tons. Of these, 103 are 50 or more years old. By 1960, 201 of them—about 60 percent—will be 50 or more years

old, with a total trip capacity of 1.9 million tons. Such limited trip capacity would only be enough to handle normal peacetime domestic commerce, to say nothing of what a shooting-war economy or even an accelerated cold-war economy might require.

Thus we find that, not only are we coming to rely increasingly on overseas sources of ore, but we are having these ore supplies brought to us more and more in foreign holds. I believe that, from a defense standpoint, undue reliance on these foreign sources and shippers can one day prove disastrous. In time of war it is inevitable that these foreign sources would be cut off, and a dangerously depleted and outmoded American inland fleet would be forced to bear a crushing burden. We should take action here in Congress now, while there is still time, to head off such a perilous eventuality.

Defense Secretary Wilson recently renewed his disavowal of "feast and famine defense policies," declaring he had "deliberately * * * shifted the entire defense effort away from arbitrary, unrealistic, short-range goals to long-range objectives adjusted to expected needs." He said on March 13:

"In our defense planning today, we have the tremendously strengthening factor of stability, combined with a cushioned impact of this great effort on the other essential activities of our people. It would be a serious error to return to policies that inflate our defense requirements today and collapse them tomorrow. More specifically, we should not race far ahead today in aircraft production, only to close down the plants tomorrow or so reduce their production that their operation would become erratic and undependable and they would importantly lose their competent and effective organizations."

Although Secretary Wilson spoke only of aircraft production, I feel that his remarks can be aptly turned, by analogy, to island shipbuilding—an industry which desperately needs stability today as never before, and which can secure reasonable stability with the enactment of S. 3108 (the provisions of which are identical to those of H. R. 8886, which I have introduced in the House of Representatives).

The pressing need for stability in the inland shipbuilding industry has been driven home sharply to me by the experiences of the American Ship Building Co. yard in my own district, at Lorain, Ohio. The production feats of this yard during World War II were tremendous; it made significant contributions to the war effort. From 1951 to 1954 the yard was extremely busy building ore carriers, but since that time (with the exception of some Navy work now in progress) construction of bulk cargo vessels has been at a standstill. Shipyard activity has been on a feast-or-famine basis, creating problems for both labor and management, as you will note from the following statement I have received from Mr. R. B. Ackerman, president, American Ship Building Co.:

"Regarding the problems which have to be met and overcome because of the violent fluctuations in shipbuilding on the lakes, it should be mentioned that the need of stability is obvious because manpower presents a problem in that it can be resolved only as conditions arise. For example, during World War II the employment peak at our Lorain yard was 4,000 and the low point numbered 153.

"In peacetime, without the aid of new construction but with reliance only upon ship repairs, the maximum employment was 300 and the low point 75.

"Beginning in 1951 there was a flurry of merchant shipbuilding which continued until October 1954, during which time there were five ore carriers constructed in the Lorain yard. At the start it presented a problem in manpower procurement, because it was necessary to recruit labor from Kentucky, West Virginia, and other locations. Our experience left something to be desired because of the unusual turnover, in employment, resulting from inexperience on the part of those employed, their unfamiliarity with weather conditions encountered during the winter seasons, and the scarcity of housing facilities.

"A peacetime operation for a shipbuilding yard such as Lorain is carried on at great expense to the company, because during the navigation season, from April 1 to December 1, the ships will not put into port for repairs except in cases of emergency and during the layup season, from December 1 to April 1, the port of Lorain accommodates fewer than 15 vessels, because of limited port facilities.

"During the navigation season, when there is no work in the yard, it is necessary, in the interest of economy, to release many skilled mechanics who seldom return because of the short period of employment and in the most inclement season. This makes recruitment and development an annual occasion.

"With knowledge of the aid that has been given shipbuilding yards on tidewater, we feel that consideration should be given similar yards on the lakes, since it has been proven that combat ships for the Navy and bulk cargo carriers have been built and delivered on time by lake yards whenever a national emergency arose."

Judging from conversations I have had with both labor and management in the inland shipping industry and with my colleagues in the Congress, the Lorain shipyard situation is by no means unique; rather it is typical of the pressures to which inland shipyards generally are being subjected.

Enactment of a construction incentive program such as is called for by S. 3108 and its House counterparts will develop a sufficiently strong domestic flag fleet to maintain the independence of American shipping on the Great Lakes, and will also create a strong standby fleet in case of national emergency. I would point out especially that this legislation will only take care of vessel construction assistance and will in no way establish an operating subsidy.

Surely on the basis of the evidence which has been and will be submitted to you in the course of this and other hearings, it is clear that now is the time for Congress to take positive action to rejuvenate our Great Lakes shipping fleet, in the interest of our national economic health and our national security.

The CHAIRMAN. Are there any other Members of Congress who desire to be heard at this time?

Mr. MINSHALL. I would like to file a statement for the record.

The CHAIRMAN. It will be incorporated in the record at this point.

(The statement referred to follows:)

STATEMENT OF HON. WILLIAM E. MINSHALL, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF OHIO

Mr. Chairman, I wish to thank you for this privilege of submitting these remarks concerning S. 3108, a bill introduced by Senator Potter which is the subject of your hearings today.

The purpose of S. 3108 is to encourage the construction of modern, up-to-date cargo vessels for use on the Great Lakes. Such encouragement is absolutely vital to meet the normal schedules of present and future peacetime commerce, and more important only because it is a matter of national life or death; such encouragement is absolutely vital in the interest of national defense at time of war.

The 23d Congressional District which I represent is on Lake Erie. It consists of 44 suburban communities around Cleveland, one of the chief ports on the Great Lakes. Because many 23d District residents derive their income from trade on the lakes, I know at firsthand the severity of the problem which the statistical evidence submitted to this committee on behalf of S. 3108 so graphically portrays.

This statistical evidence will show beyond a shadow of a doubt not only the necessity of this legislation, but this evidence provides a striking testimonial to the urgency of congressional action. There are just not enough first-rate American cargo vessels on the Great Lakes to competitively handle constantly expanding American shipping requirements, and the majority of the vessels now in service could well be relics in a maritime museum.

This committee knows far better than I the economic factors underlying the disgraceful status of our interlake merchant fleet. Our immediate concern is to find a solution to the problem we know exists, and that solution, in my judgment, is contained in S. 3108.

There are six bills similar to S. 3108, one of which I introduced, now pending before the House Committee on Merchant Marine and Fisheries—evidence in itself of the increased interest shared by the Members of Congress in this pressing problem. I am convinced this legislation has much merit and wide support, and I respectively urge this committee to approve S. 3108.

The CHAIRMAN. Are there any other Members?

(No response.)

Thank you gentlemen very much. You will have an opportunity to come back, if you so desire.

We will now hear from the General Accounting Office.

STATEMENT OF GRAYDON L. ANDREWS, ATTORNEY, ACCOMPANIED BY ALFRED L. HEDBAWNY, AUDIT SUPERVISOR, GENERAL ACCOUNTING OFFICE

Mr. ANDREWS. My name is Graydon L. Andrews, attorney, and I have with me Mr. Alfred L. Hedbawny, audit supervisor of the General Accounting Office.

We appreciate this opportunity to express our views on H. R. 8894.

H. R. 8894 proposes a method of determining credit allowance for obsolete Great Lakes bulk cargo vessels acquired by the Government which is a significant deviation from the present provisions of sections 507, 510 (d) and 510 (h) of the Merchant Marine Act, 1936, applicable to other vessels. At present, the credit allowance for an obsolete vessel may not exceed its "fair and reasonable value," as determined after consideration of its (1) scrap value, (2) depreciated value based on a 20 year life, and (3) world market value. The trade-in allowances contemplated by the bill would have no direct relation to some value base for the trade-in vessel since the allowance is to be based upon the excess of the Great Lakes shipyard costs of construction of the new vessel over the estimated cost of constructing the vessel in the lowest cost foreign yard where such vessels have been or are likely to be built.

In view of the reported ages of the present Great Lakes bulk cargo vessels and inasmuch as the fair and reasonable values of such vessels are not for consideration in establishing the credit allowance proposed in the bill, it is reasonable to assume that the oldest of such vessels will be offered the Government and that their values probably will be little more than scrap value. This also raises the question as to whether any of the obsolete vessels acquired by the Government under this bill in the forseeable future will be of sufficient value for commercial or military operations to warrant the expense of their further preservation and maintenance in a "national defense reserve fleet of Great Lakes vessels" which would be created for that purpose.

To the extent that the credit allowances computed under the bill exceed the fair and reasonable values of the obsolete vessels traded in, the Government's payment of the difference will constitute a subsidy—a hidden subsidy. The 1937 act was conceived with the sound idea of putting an end to the hidden or disguised subsidies contained in the old ocean mail contracts. Accordingly, we recommend against favorable consideration of this measure and urge that any subsidization of the costs of constructing new Great Lakes vessels or preferential treatment to Great Lakes shipyards which is deemed necessary or desirable by Congress be provided in express terms. However, we offer the following analysis and comments on other provisions of the measure:

One of the requirements for considering a vessel "obsolete" is that it must have been "enrolled and licensed under the laws of the United States for trade on the Great Lakes * * * for a period of at least 10 years." We understand that it is possible for a vessel to have been enrolled and licensed for navigating on the northern frontier waters (including the Great Lakes) for a period of time, to have surrendered such enrollment and license in favor of a coastal license or a registry for foreign trade, and again become enrolled and licensed for the northern frontier waters. If we are correct in assuming that the bill does not contemplate permitting return of any former Great

Lakes vessels to enrollment and licensing thereon for the purpose of trade-in, it is suggested that any consideration of the bill include an amendment to require such enrollment and licensing for 10 consecutive years immediately prior to acquisition of the vessel by the Government.

Since the bill provides for the payment by the Government of any national defense features incorporated in the new vessel, it would appear desirable to require approval by the Secretary of the Navy of the plans and specifications for the proposed vessel, as now provided in section 501 (b) of the 1936 act. Moreover, the bill does not require the approval of the Secretary of Commerce of such plans and specifications. Such a provision would appear desirable.

The bill provides that "nothing in this subsection shall be construed as restricting the trade in which such new vessel may be used." Considering the provision in the bill that a "new vessel" must be one capable of carrying bulk commodities between ports on the Great Lakes, the St. Lawrence River "and the Gulf of St. Lawrence as far east as a line drawn north and south through the west end of Anticosti Island," it appears that the subject provision is for the purpose of authorizing the new vessels to carry commodities beyond that area. If so, and inasmuch as trade-in valuations for American operators in coastal and foreign trades are limited to the fair and reasonable values of their traded-in vessels, it would seem desirable to equalize the competitive status of the operators by providing that the Government recover that part of a Great Lakes vessel trade-in allowance which was in excess of its fair and reasonable value when and if the "new vessel" engaged in ocean-coastal trade.

The bill provides for adjustment of the basic cost differential on which the trade-in allowance is premised, in accordance with the difference in the gross tonnages between the obsolete vessel or vessels and the new vessel. As we construe this provision, if the gross tonnage of the obsolete vessel or vessels is less than the new, the allowance of credit will be reduced by such proportion as the excess of the new tonnage over the old bears to the new. If the gross tonnage of the obsolete vessel or vessels is greater than the new, an additional allowance of such proportion of the fair and reasonable value, determined under section 510 (d), as the excess of the old tonnage over the new bears to the old, will be granted.

Finally, no provision is made for determining the price to be paid for the new vessel upon acquisition by the Government. The credit allowances contemplated by the bill are not construction-differential subsidies which would give rise to the limitations provided in section 802. Accordingly, it would appear desirable to provide that upon acquisition the price to be paid shall exclude any amount for the national-defense features which were paid for by the Government, together with the depreciated amount of the excess of the trade-in allowance of the obsolete vessel over its fair and reasonable value.

In summary, we have no information as to the need for or desirability of the objectives of the bill and we make no recommendation in that respect. However, we are of the opinion that the bill would authorize a subsidy in the guise of liberalized trade-in allowance, and the General Accounting Office has always been opposed to such hidden subsidies. For this reason, we recommend against favorable consideration of H. R. 8894.

The CHAIRMAN. Would this grant a benefit to coastal vessels in the Great Lakes?

Mr. ANDREWS. Yes.

The CHAIRMAN. Beyond that which is now granted to coastal vessels on the Atlantic or the Pacific seaboard?

Mr. ANDREWS. Yes; that is correct.

The CHAIRMAN. It makes no provision for granting the same provision to similar vessels on the Atlantic and the Pacific seaboard?

Mr. ANDREWS. In other words, the present domestic operations do not carry construction-differential subsidies. This bill would in effect grant what I would call liberalized construction-differential subsidies. I say "liberalized" for this reason: Under the present law, even in foreign operations, the construction differential is based upon the difference between the lowest responsible domestic bid—and that is nationwide without regard to location of the yard—as compared to the estimated cost of the construction in a principal foreign shipbuilding center.

This bill specifically requires the use of the lowest foreign cost yard where they have been building or may build, vessels of this type. It does not permit nationwide competition in the construction of vessels in American yards. For that reason I think it is more liberal.

Also, it does not have a 50-percent limitation as now provided on construction-differential subsidies.

The CHAIRMAN. Mr. Robeson?

Mr. ROBESON. I have no questions.

The CHAIRMAN. Mr. Van Pelt?

Mr. VAN PELT. I have no questions.

Mr. DINGELL. I want to thank the Chair for this opportunity to ask these questions, though I am not a member of the subcommittee. I would like to ask the witness this question: You speak now for the General Accounting Office?

Mr. ANDREWS. Yes.

Mr. DINGELL. Are you familiar with the position of the Bureau of the Budget on this bill?

Mr. ANDREWS. I do not know that I am.

Mr. DINGELL. Would the Bureau of the Budget's position be different or would it be possible that position would be different from the position of the General Accounting Office?

Mr. ANDREWS. It could be. I cannot speak for their position.

Mr. DINGELL. May I ask you this question? Would you tell us whether or not the General Accounting Office made a study of the various captive fleets on the Great Lakes and the effect of this particular bill on the captive fleets; in other words, the fleets that would be owned by some of the large steel companies and limestone companies, like Republic Steel and so forth?

The CHAIRMAN. Let me interrupt this just a minute. In the Department of Commerce's letter, which is unfavorable to the bill, the Bureau of the Budget has advised that it would interpose no objection to the submissal of the unfavorable report. That takes care of the Bureau of the Budget's position.

Mr. DINGELL. Returning again to the effect on captive fleets, does the General Accounting Office study that?

Mr. ANDREWS. No, sir. I think that would be within the province of the Maritime Administration.

Mr. DINGELL. Is the Maritime Administration slated to testify today?

The CHAIRMAN. I am sure that there will be testimony from the Maritime Administration. We would not consider a bill of this nature unless they did testify.

Mr. DINGELL. I just wondered if that was to be today. I have no further questions.

Thank you very much.

The CHAIRMAN. Are there any further questions of the witness?

(No response.)

The CHAIRMAN. The next witness will be Mr. Franklin G. Pardee.

STATEMENT OF FRANKLIN G. PARDEE, PRESIDENT OF THE LAKE SUPERIOR IRON ORE ASSOCIATION

Mr. PARDEE. My name is Franklin G. Pardee, and I am president of the Lake Superior Iron Ore Association, an organization supplying statistical information on the movement of iron ore from the Lake Superior region. Prior to my coming with the association, I was State geologist of Michigan, and before that for over 20 years, I valued the iron and copper mines for tax purposes in Michigan.

Any long range program such as has been proposed by H. R. 8886 and similar bills must necessarily be based on the existence of sufficient reserves of iron ore available for transportation and demand for this ore by the furnaces. An examination of the reserves of iron ore in the area that will need these ships to transport the iron ore will show that these reserves are ample for many years in the future. Also, a study of the demands of the furnaces for iron ore from this area, especially during times of emergency, fully support the proposed program.

The discussion on reserve is confined to those ores that will normally be moved on the waters of the Great Lakes and the St. Lawrence seaway. Ores for the furnaces in the southern and western portions of the United States are not considered. Foreign sources must also be disregarded as most of these ores would not be available in times of emergency.

The authority for the reserve tonnages quoted are the State reports and the Symposium on the Deposits of Iron Ore of the World that was prepared for the 1952 International Geological Congress. The part of the Geological Congress report dealing with the United States was prepared by Mr. Carl E. Dutton of the United States Geological Survey. The Canadian portion was written by Mr. T. L. Tanton of the Geological Survey of Canada. The figures for the United States have been checked with those published by the United States Bureau of Mines in a preprint from bulletin 556.

Reserves of iron ore expected to move to the furnaces via the Great Lakes

	Tons
Minnesota [1]	916, 260, 000
Michigan [1]	160, 197, 000
Wisconsin [1]	6, 500, 000
Canada:	
Steep Rock area [2]	110, 000, 000
Michipicoten area [3]	175, 000, 000
Minnesota taconites [4]	1, 700, 000, 000
Michigan jaspers [5]	724, 000, 000
Wisconsin jaspers [6]	30, 000, 000
Total	3, 821, 957, 000

[1] Mining Directory of Minnesota 1955, pp. 242–243.
[2] Symposium on Iron Ore, International Geological Congress 1952, p. 339.
[3] Same as [2] adjusted to 50 percent iron.
[4] Same as [2], page 393.
[5] Same as [2], page 394.
[6] Same as [2], page 394, reduced to shipping grade on 3 to 1 ratio.

The tonnages shown on the table are those reserves that are known and can be counted on for shipment on the Great Lakes. In addition to these tonnages, the engineers and geologists estimate possible ore that may be found in the future or may be made into usable furnace ore by some new process.

The CHAIRMAN. Do you deal in your statement here with what this committee has to consider—the difference between this type of subsidy shipping and that existing today?

Mr. PARDEE. I am merely here to show that there are sufficient tonnages of ore available for use over a long period and that the furnaces require that ore.

The CHAIRMAN. The committee has something to deal with here. You are opening up really a new frontier in interocean and coastal shipping. We have legislation that deals with the coastal shipping and deals with intercoastal shipping. You are just showing that there will be freight and cargo on the lakes.

Mr. PARDEE. There will be freight and a demand for that ore.

The CHAIRMAN. There are international cargoes and coastal cargoes today, that is all granted.

Mr. PARDEE. I was speaking entirely for the ore that will travel on the Great Lakes interstate and between Canada and the United States. This is merely testimony to show that there is sufficient ore to justify this program.

The CHAIRMAN. Transportation on the lakes?

Mr. PARDEE. Yes.

The CHAIRMAN. That is granted.

We will file the remainder of your statement for the record.

(The statement referred to is as follows:)

The report on the iron-ore reserves of the United States in the Symposium on the Iron Ores of the World, published by the International Geological Congress in 1952, and also in bulletin 556 of the United States Bureau of Mines, carries some large tonnages of possible iron ore. This possible ore is that ore which cannot be proven definitely at the time the estimate is made, but the geological evidence for its existence is sufficient to justify this possible ore being considered as potential reserves. Many such estimates made by competent engineers and geologists in the past have proven to be correct, and for that reason this possible ore is mentioned here. Without going into detail, the reports quoted show more than a billion tons of possible ore in addition to the tonnages shown in the table for the Lake Superior region in the United States. In the Steep Rock and Michipicoten areas, the tonnage of possible ores is reported at over 300 million tons additional.

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For long-range planning, therefore, the potential reserves of iron ore, as well as the known reserves, should be considered; and, therefore, the tonnages shown in the table should be increased by 1.3 billion tons. This means that there is over 5 billion tons of ore available for the boats from the upper lake ports.

The taconite ores require special mention, as they are a recent development and illustrate how changes in technical processes increase reserves. Studies have been going on for over 30 years to find some commercial process that would permit the mining of the very hard low-grade taconite ores and the release of the finely divided iron in the rock. Research has developed new processes and machines that now make it possible to mine and crush the ore fine enough to release the iron from the impurities and then put the iron in such shape it can be used in the furnaces. The taconite estimate quoted at 1.7 billion tons includes only the magnetic taconites. These magnetic taconites are those in which the iron ore is separated from the waste by magnetic means. No published estimates are available for the nonmagnetic taconites in Minnesota, and the tonnage of this material is undoubtedly very large.

The estimate does not include any tonnage of iron ore from eastern Canada. The Canadian section of the report on iron ore prepared for the 1952 International Geological Congress shows 3 billion tons of developed and possible ore in the Quebec-Labrador area alone. Other reserves of iron ore brought to public notice within the past few years in eastern Ontario, Labrador, and Quebec add materially to the above tonnages.

In 1955, 87,459,853 tons of iron ore was moved down the lakes, of which 3,310,000 tons came from Canadian mines in the Lake Superior district. An additional 6 million tons came to the United States from the Canadian mines in Labrador and Quebec, and most of this latter ore reached the United States furnaces through the ports of Baltimore and Philadelphia. When the St. Lawrence seaway is complete, large tonnages of this eastern Canadian ore will be moved to the furnaces in lake ships, and under emergency conditions this movement will be a very important one, especially so if cosatwise shipping is endangered.

In 1955 there were over 13 million tons of iron ore imported from countries other than Canada, and all indications point to an increase in this movement of iron ore in the future, as shown by the diagram which accompanies this statement. Under emergency conditions some of this foreign ore would have to be replaced by ore from other sources, some of which would be from the Lake Superior region and some from eastern Canada, which would again put an additional load on the lake ships.

It is evident, therefore, that the lake ships will not lack for iron ore to transport for many years to come, based on our present knowledge of the reserves, and if the developments in later years compare in any way with those we have seen in the last 30 years, we are assured of ore for the ships and the furnaces for a long time.

The diagram just referred to shows the expected source of iron ore for the United States furnaces up through the year 1985. This diagram was made by Mr. Verne E. Johnston, engineer and geologist, who has been associated with the iron-ore industry in responsible positions for over 35 years. The estimate is based on his study of the potential reserves and sources of iron ore, the grades needed by the furnaces, and in many cases, on his personal knowledge of the mining areas from which the ore will come.

A study of this chart indicates that under normal conditions there will always be a large movement of iron ore. This can be best illustrated by selecting some future years as examples. Using the years 1960 and 1980, the chart shows the expected movement of iron ore in the United States as follows:

Expected movement of iron ore in the United States

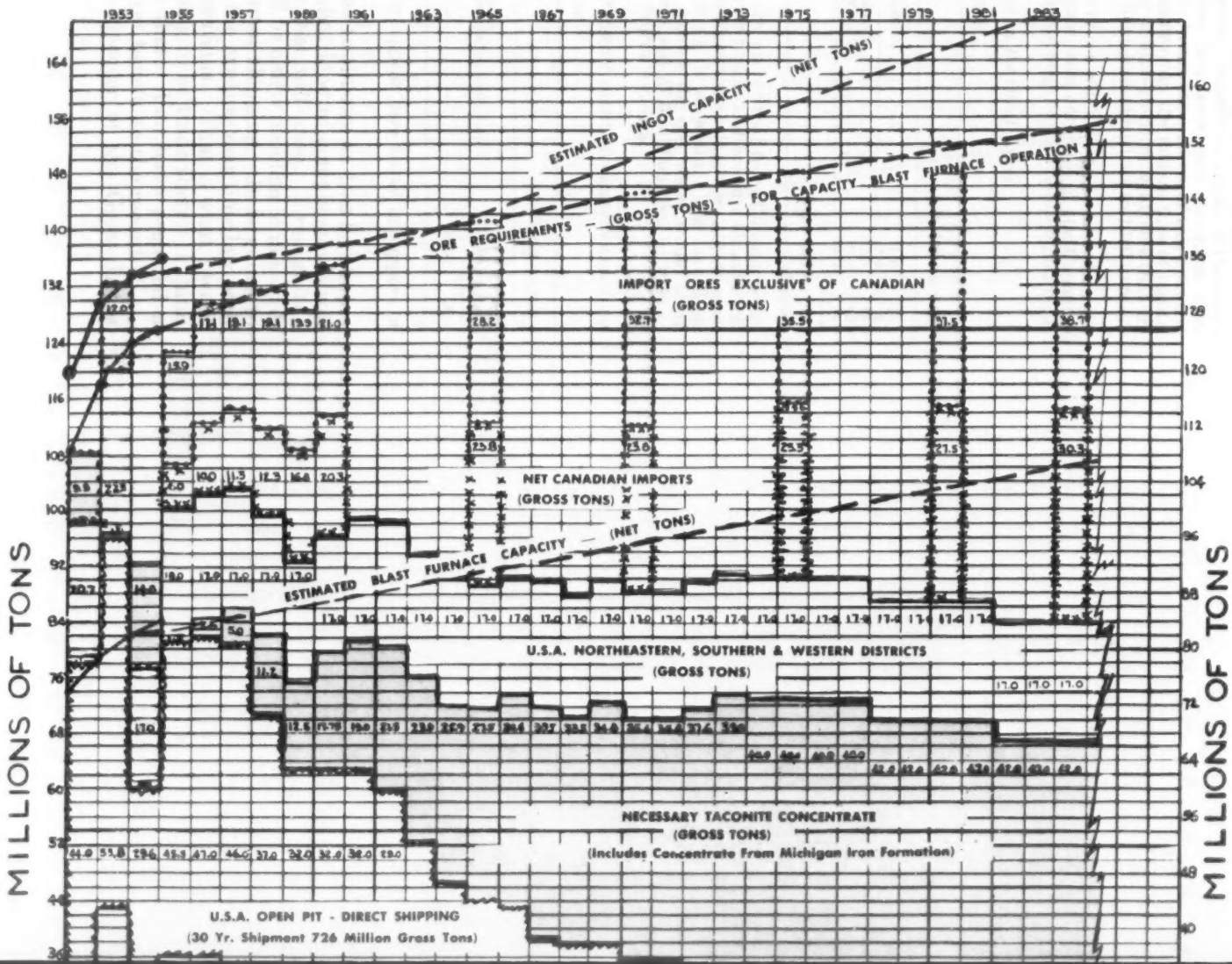
[Millions of tons]

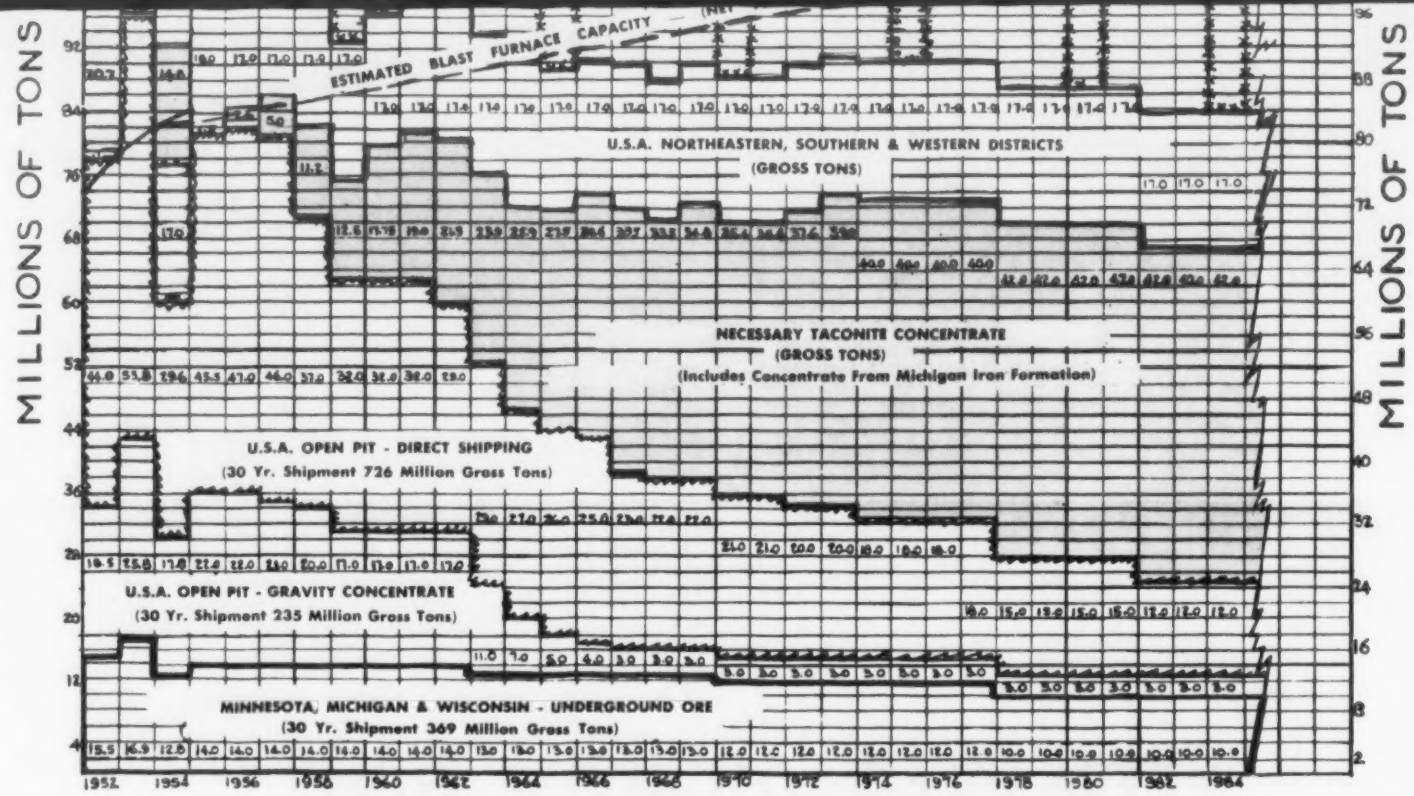
	1960	1980
From underground ore—Minnesota, Michigan, Wisconsin	14.0	10.0
From United States—open pit, gravity—concentrates	17.0	3.0
From United States—Lake Superior—open pit, direct shipping	32.0	15.0
From Minnesota taconites and Michigan-Wisconsin jaspers	18.0	42.0
From United States—Northeastern, Southern, and Western districts	17.0	17.0
From Canadian sources	20.3	27.5
Imports exclusive of Canada	21.0	37.5
Total	139.3	152.0

REQUIREMENTS AND POTENTIAL SOURCES OF IRON ORE FOR STEEL PLANTS IN THE UNITED STATES PROJECTED FOR 30 YEARS

Oglebay Norton & Co.
By: V. D. Johnston, Consultant
Sept. 1955

Based on B. F. Fairless Jan. 1954
Estimate of Future Increase
In Steel Plant Capacity





Skillings' Mining Review

810 Fidelity Building — Duluth, Minnesota

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The chart also shows the estimated steel ingot capacity needed by this country based on a prediction made by Mr. B. F. Fairless, formerly chairman of the board of the United States Steel Corp. Three other prominent steel executives have made similar or larger estimates covering the future steel needs of this country. In 1960 the 139.3 million tons of iron ore will provide 138 million tons of ingots, and on account of the increase in the tonnage of high-grade concentrates that are expected in the future, it will take only 152 million tons of iron ore in 1980 to make 166 tons of ingots.

It is obvious that not all of these tonnages of ore will have to be moved on the Great Lakes, but even under normal conditions with only half of the Canadian ore being transported on the Great Lakes, the tonnage requirements would be as follows:

Expected movement of iron ore on the Great Lakes

[Millions of tons]

	1960	1980
From underground ore, Michigan, Minnesota, and Wisconsin	14.0	10.0
From United States open-pit gravity concentrates	17.0	3.0
From United States Lake Superior open pits, direct shipping	32.0	15.0
From Minnesota taconites and Michigan, Wisconsin jaspers	18.0	42.0
Half of Canadian ore	10.0	14.0
Total	91.0	84.0

Under emergency conditions when foreign ore, except that from Canada, is not available, the iron mines of the Lake Superior region and eastern Canada will have to make up the deficiency. In past emergencies the mines were able to meet the excess demand and will probably be able to do so again. The lake fleets should also be prepared to do their part by moving the ore, which would mean transporting 21 million additional tons in 1960 and 37.5 million tons in 1980 to make up the ore lost from sources outside of North America.

Expected movement of iron ore on the Great Lakes under possible emergency conditions

[Millions of tons]

	1960	1980
Normal ore movement (see above)	91.0	84.0
Emergency ore movement (iron ore necessary to replace unavailable foreign ore)	21.0	37.5
Total	112.0	121.5

I wish to thank you for the opportunity to appear here today in support of H. R. 8886.

The CHAIRMAN. What I want is some testimony on this legislation as compared to the existing law and what kind of complications will arise. There are many complications that will arise. I realize the opening of the St. Lawrence Seaway will be a new problem to national, coastal and intercoastal and international shipping. It is going to post a problem of a general revision of the existing maritime law with respect to construction and subsidy operations. That is what I want to hear about. I grant that there is going to be trade there. I think everybody on this committee accepts that. You have prepared a very fine statement which will be of great benefit to the record.

Now, our next witness will be Mr. Spencer of the Great Lakes Carriers' Association.

STATEMENT OF LYNDON SPENCER, PRESIDENT, LAKE CARRIERS' ASSOCIATION

Mr. SPENCER. My name is Lyndon Spencer. I am president of Lake Carriers' Association, an organization whose members operate 312 United States-flag bulk cargo vessels on the Great Lakes. The association appreciates the opportunity to appear before this committee in support of these bills to encourage the construction and maintenance of modern Great Lakes bulk cargo vessels.

There are on the Great Lakes, documented under the laws of the United States, 343 vessels capable of transporting bulk commodities such as iron ore, limestone, coal, and grain. See exhibit I. The movement of these commodities constitutes better than 95 percent of the total commerce of the Great Lakes. The importance of this traffic in bulk commodities to the economy and the national defense cannot be overemphasized. During World War II United States vessels moved about 800 million tons of commodities over the Great Lakes. This was nearly four times the entire commerce carried by our ocean merchant marine during the same period. Today about 25 percent of the total waterborne commerce of the United States moves between ports on the Great Lakes (S. Rept. 1635, 84th Cong., 2d sess., p. 4).

The greatest agricultural and industrial production area in the world is concentrated in the Great Lakes region. It depends upon efficient transportation. In the shipping industry of the Great Lakes we have a transportation system unmatched anywhere in the world for moving huge tonnages of bulk commodities at the lowest possible cost. Built on a system of free enterprise and private ownership without the direct assistance of Government, this sytem of transportation is one of our greatest economic assets. Without it we could not have successfully fought two world wars or faced up to the Korean emergency. It is of benefit to any citizen who uses a piece of steel in any form or takes a crumb of bread with his daily meal.

Eighty percent of the iron ore consumed in this country moves over the Great Lakes. During World War II, when overseas sources of iron ore were entirely cut off by enemy submarine activity, Great Lakes vessels kept 90 percent of the Nation's steel industry, including that along the Atlantic seaboard, supplied with iron ore.

Recently the Senate Committee on Public Works, in recommending the passage of legislation authorizing the deepening of the connecting channels of the Great Lakes, pointed out that during a national emergency, "the ore fields of the upper lakes might be the only source of raw materials available" (S. Rept. 1635, supra, p. 4). In his testimony on the subject of iron ore, Mr. Frank Pardee, president of Lake Superior Iron Ore Association, will show that there still remains an adequate supply of iron ore in the Great Lakes area for future emergency demands. I want to emphasize that in any future conflict the Great Lakes will accord the only protected route for the movement of this ore and other vital commodities.

In addition to iron ore, however, Great Lakes vessels carry substantial quantities of limestone used by the steel, chemical, and construction industries. Much of the coal consumed throughout the great Northwest and Canada must first be transported over the Great Lakes. Great Lakes vessels form an indispensable link in the move-

ment of grain, both for domestic consumption and for export. The quantities of these commodities moved by Great Lakes vessels are indeed impressive.

There can be no question but that the economy and the national defense of this country require the maintenance at all times of a strong citizen-owned and citizen-manned bulk-cargo fleet on the Great Lakes. Of the 343 vessels previously mentioned, only 25 have been built since World War II. By 1960 better than 213 vessels, or 62 percent of the fleet, will be 50 or more years old. By today's standards, such vessels are relatively inefficient and obsolete. Many of them should be replaced if the shipping industry of the Great Lakes is to keep pace with the expanding national economy and defense requirements.

Yet today shipbuilding on the Great Lakes is literally at a standstill. No new bulk-cargo vessels are on order. As the older vessels in the fleet reach the end of their useful economic life, they are being scrapped or sold for nonmaritime use. Only last year 15 vessels were retired from Great Lakes service. If this trend continues, it could well jeopardize the future security of the Nation.

Why do Great Lakes vessel operators lack the necessary incentive to undertake new construction? Briefly summarized, the reasons are: (1) the increasing importation of foreign ores with a resulting decrease in the demand for Lake Superior ore, and (2) the inability of United States vessels, with their high construction and operating costs, to compete for cargoes in the growing international trade between Canada and the United States.

Before World War II relatively little iron ore was imported into the United States, but now the consumption of foreign iron ore is rapidly increasing. It is predicted foreign ores eventually will supply about 40 percent of the ore used in this country. Such an amount of ore will be more than enough to take care of the expanding steel production of the Nation. It will do more than augment domestic ores. It will compete with them and to some extent displace them.

In Canada, one of the principal sources of foreign ore, production in some of the new reserves is growing by leaps and bounds. Much of this ore moves to United States Great Lakes ports and the amount of such shipments is sure to increase the already large international trade between the two countries.

In 1955 the trade in bulk commodities between the United States and Canada amounted to 28 million tons. I am speaking of the trade only which went across the Great Lakes only, and not up the east and west coasts of the country. Considering the expected growth and industrial expansion which will take place in the Great Lakes region during the next few years, this international trade may well reach 45 million to 50 million tons annually by 1960 and will include not just iron ore but coal, limestone, and grain as well. It must be apparent to all that in the future, as the relative importance of this international trade in bulk commodities grows, the American operator will have to look to this trade if he is to find cargoes with which to load his vessels.

Thirty years ago American vessels carried 76 percent of all Great Lakes commerce moving between the United States and Canada. Today they are carrying less than 29 percent. Canadian shipping is thriving on this international trade which far exceeds their own domestic Great Lakes commerce.

United States vessels have lost ground to their Canadian competitors because Canadian vessel costs are only about two-thirds of ours. The Canadians have an additional advantage taxwise in that they have been permitted since January 1, 1949, to elect to depreciate in any 1 year as much as 11⅓ percent of the total capital cost of vessel construction and reconstruction. (Canadian Vessel Construction Assistance Act, RSC 1952, ch. 43, as amended). As the result, the Canadians have made tremendous strides in the development of their Great Lakes fleet, having added 223,000 tons of carrying capacity in the last few years.

While, as the members of this committee well know, international trade is open to the vessels of all nations, such traffic on the Great Lakes has thus far been alsmost entirely in vessels of the United States and Canada because the limited capacity of the canals in the St. Lawrence River area has prevented large, low-cost foreign vessels from entering the lakes. Completion of the St. Lawrence seaway, which is only 3 years away, will admit foreign-flag vessels equally as large and efficient as the largest Great Lakes vessel. The construction costs of foreign vessels average about 40 percent of the cost of vessels built in the United States and their operating costs average less than 55 percent of ours.

Construction of the seaway has been very largely justified on the basis of the benefits to be derived from direct Great Lakes overseas commerce. It is not my purpose to detract from or minimize those benefits which ultimately will accrue to all our peoples, but it cannot be emphasized too strongly that once the seaway is completed, the international commerce of bulk commodities between the United States and Canada will be thrown open to the vessels of all nations. This trade will exceed many times the direct overseas commerce through the seaway. Without a constructive policy in this country, foreign-flag operators will reap the big benefits from this new avenue of commerce at the expense of our own Great Lakes fleet.

If United States vessels have not been able to hold their own in the international trade when their only competition has been Canadian ships, how can they hope to keep any of this business against the still lower cost overseas foreign vessels? Without adequate safeguards our vessels cannot hope to compete for this trade. Our fleet will then diminish to a point where it will be just sufficient to transport the Nation's peacetime domestic commerce in bulk commodities produced in the Great Lakes area.

It would be fallacy to assume that, even in the purely domestic trade, Great Lakes vessels would be free from the effects of foreign-flag competition. Transportation charges are a major factor in the cost of bulk commodities. Because water carriers have the faculty for providing high-volume low-cost transportation over long distances, they create a large share of their own traffic. In the future the size of the commodity movement in the domestic trades of the Great Lakes will very largely depend upon the ability of Great Lakes vessels to keep commodities such as iron ore, limestone, coal, and grain, competitive in the market place with the similar foreign commodities.

Confronted with these facts, there is little wonder that the American operator is reluctant to undertake new construction. To preserve an adequate privately owned fleet of bulk-cargo vessels on the Great Lakes, a national policy must be adopted which will enable the

American-flag vessel to maintain its rightful place in the future commerce of the Great Lakes. Such a policy must, of necessity, envisage the replacement of many of the older vessels in the fleet. New efficient vessels are needed to meet foreign-flag competition in all its various aspects.

The only way to realize these objectives is through a long-range construction program, a program which will provide a fleet capable of transporting not only our domestic commerce but a fair share of the expanding commerce with Canada as well.

Under present law we have neither a policy nor a program for encouraging new construction on the Great Lakes. Section 605 of the Merchant Marine Act, 1936, as amended, excludes every vessel operating on the Great Lakes from construction and operating-differential subsidies (46 U. S. C. A. 1175). Even were this restriction removed, however, the type of subsidies available under the 1936 act would be of little assistance to those engaged in the transportation of bulk commodities on the Great Lakes.

To qualify for an operating differential subsidy contract, an owner must be willing to operate his vessels exclusively in foreign commerce on an essential trade route. No one holding an operating differential subsidy contract can engage in or have any connection whatsoever with those who do engage in the domestic trades without the written permission of the Maritime Administration (46 U. S. C. A. 1223). Furthermore, aid of this type is limited to common carriers. On the Great Lakes the movement of bulk commodities does not lend itself to a common-carrier type of operation. In that transportation the vessels are either contract or private carriers.

Were the Great Lakes restriction in section 605 removed, the construction-differential subsidy provisions would still not be suitable for Great Lakes operations. Under section 506 every owner of a vessel for which a construction-differential subsidy has been paid must agree that the vessel shall be operated exclusively in foreign trade (46 U. S. C. A. 1156). While the Administrator has authority to consent in writing to the temporary transfer of a vessel to a different service for periods not exceeding 6 months in any one year, our information is that in practice, consent will not be granted where it is found that such consent will result in competition to those already operating in the particular service for which permission is sought.

To attempt to apply the subsidy provisions of the 1936 act to the Great Lakes would neither further the purpose of that act nor strengthen the Great Lakes bulk-cargo fleet. These provisions were designed to meet the requirements of the offshore regular route trades which, as a general rule, are completely separate and distinct from, and not competitive with, the coastwise and intercoastal trades. Such is certainly not the case on the Great Lakes.

As previously mentioned, on the Great Lakes the traffic with Canada is closely interwoven with our own domestic commerce. Vessels are in and out of the 2 trades from 1 trip to the next and efficiency of operation depends upon the quick interchange of use. To illustrate, a vessel might load at a Lake Erie port for an upper lake Canadian port. After discharging her coal cargo, the same vessel might proceed to Duluth-Superior and take on a cargo of iron ore for the Chicago area. She could then load export grain at Chicago for Canadian ports above the St. Lawrence River, or, when the

seaway is completed, she could load such export grain for Montreal or Quebec.

After discharging her grain cargo the vessel could then take on a cargo of iron ore at Seven Islands for transportation back to a Lake Erie port. It can be readily seen that to impose restrictions, directly or indirectly, upon the freedom of use would seriously curtail the efficiency of such a vessel. To undertake to freeze a vessel in international trade between the United States and Canada would be contrary to good operating practice. Both the construction and operating differential subsidies in their present form are wholly unsuited to Great Lakes operations.

The only type of aid, available to Great Lakes operators under the 1936 act, is that provided by the trade-in provisions of section 510 (46 U. S. C. A. 1160). Recognizing that a sound merchant-marine policy must comprehend a realistic replacement program in both the foreign and domestic trades, the Congress in 1939 enacted section 510. Originally part of the then Maritime Commission's recommendations for legislation submitted to the 76th Congress (H. Doc. 208, 76th Cong., 1st sess.), section 510 established a new trade-in policy by offering vessel operators a method of disposing of their older vessels in the most generous world market. This advantage could be realized, however, only in terms of new construction. In proposing section 510, the Commission pointed out that:

> Vessels acquired under the proposal can be placed in the laid-up fleet if it is desired to preserve their national defense value for the United States, or can be scrapped as already provided in the act. The Government would thus be reimbursed in the form of property or cash, except insofar as there is a difference occasioned by considerations of national policy which concern every other citizen as well as the shipowner, and would realize the advantage of new ships as well (H. Doc. 208, supra, pp. 6, 7).

Reporting favorably on the legislation, the House Committee on Merchant Marine and Fisheries said:

> The Merchant Marine Act, 1936, expresses the governmental policy that vessels over 20 years of age should be replaced, but unless their owners are permitted an outlet whereby they can dispose of the older vessels, it is idle to expect them to contract for new ones.
>
> United States scrap market prices are not sufficiently remunerative to offer an inducement to replace old ships, but available prices in the world market are far more liberal. (H. Rept. 824, 76th Cong., 1st sess., p. 6).

Section 510 was intended to provide an incentive, other than by way of subsidy, to shipowners to replace the older vessels in their fleets. In recommending the Commission's proposal to the Congress, the Committee on Merchant Marine and Fisheries stated:

> The Commission's proposal contains no element of subsidy, but would afford a measure of relief from a statutory restriction peculiar to our shipping and would provide an incentive to replace the older vessels with efficient craft of modern design (H. Rept. 824, supra, p. 2).

The purpose of section 510 was first discussed by the Comptroller General of the United States in a ruling dated February 7, 1943, and addressed to the Chairman of the then Maritime Commission (B–32105, February 17, 1943). At that time the Maritime Commission was seeking the Comptroller General's advice on the validity of a proposal whereby the Commission would sell 16 ore carriers constructed for the account of the Commission to private operators on the Great Lakes and permit such operators to turn into the Commission 39 old vessels under the provisions of section 510.

It appears from the ruling that the cost of the new vessels was about $155.10 per ton of cargo-carrying capacity and that the Commission proposed to acquire the obsolete vessels for an allowance of credit equal to $63.75 per carrying ton. In determining the amount of the allowance, no weight was given to the scrap value of the obsolete vessels or values resulting from a 20-year life. It was recognized at the time that "the valuation of $63.75 is in excess of normal values of lake vessels of comparable age and type, but this is equally true of the construction cost of new vessels.

In approving the proposal of the Commission the Comptroller General observed that section 510 contemplated a situation, whether in times of national emergency or not, where the mutual consent of the Government and of the private owner to the terms of the exchange and sale transaction is necessary to its consummation. He pointed out that—

> * * * the allowance of credit was intended as an incentive to owners of obsolete vessels to cooperate with the Government in modernizing the merchant marine. It would seen apparent, therefore, that if the construction cost of the new vessel, which the private operator must assume under the contract of purchase, is abnormally high—that is, if it is an imopportune time generally to buy or build a new vessel from the standpoint of normal prices or costs—private owners will be reluctant to enter into a deal involving the assumption of such costs unless the increased costs are taken into consideration in the allowance of credit on their old vessel in such way as to offset—to some extent at least—the disadvantage of purchasing a new vessel at such time. In other words, it would seem to be obvious that unless the offer of credit to the shipowner is sufficiently attractive in amount to induce him to contract for the purchase of the new vessel, the program which said section 510 contemplates cannot be carried out.

He went on to say that:

> The circumstances attending a particular sale or series of sales are so varied in nature—having regard to the condition of the obsolete vessel and the uses to which it is being or may be put—that the conclusion would seem inescapable in listing three separate standards of valuation in section 510 (d) Congress intended only that in determining the fair and reasonable value of a vessel as a basis of a credit allowance, each standard be given due consideration with a view to selecting that standard which under all the facts and circumstances of the particular case provides the most appropriate guide to such fair and reasonable value.

The difficulty with section 510 at the present time is that in the case of Great Lakes vessels there is no established world market. The only trade-in of Great Lakes vessels has been that referred to in the ruling of the Comptroller General of February 17, 1943. From the standpoint of then existing costs, it was inopportune to buy or build a new vessel. Because of the uncertainties of war, private operators were reluctant to enter into transactions involving new construction unless the increased construction cost of new vessels was taken into consideration in determining the allowance of credit. Both the Maritime Commission and the Comptroller General recognized that to carry out the program which section 510 contemplates, the allowance of credit had to be sufficiently attractive in amount to induce private operators to purchase the new vessels. These practical considerations led the Commission to allow and the Comptroller General to uphold an allowance of credit, the equivalent of 40 to 45 percent of the cost, per carrying ton, of the new vessels.

The situation facing Great Lakes operators today is equally as grave as that during World War II, if not more so. The shifting of major iron-ore sources and the prospects of vigorous foreign-flag competition

have, in effect, reduced the normal value of any new vessel far below its actual construction cost. The time is generally inopportune to buy or build a new vessel from the standpoint of profitable operation. Consequently, unless the high cost disadvantage of building a new vessel is given proper weight in determining the allowance of credit, the trade-in provisions of section 510 are of little value in encouraging new construction.

Despite these practical considerations, however, informal discussions with the Maritime Administration indicate that there is little prospect that anything much above scrap value would be allowed on the turn-in of a Great Lakes vessel. Thus, as matters now stand, section 510 and the program which it contemplates are wholly inadequate and ineffective so far as encouraging new construction on the Great Lakes is concerned.

By utilizing foreign construction costs in determining the credit allowance, the bills under consideration merely seek to put a realistic and workable standard for Great Lakes vessels into section 510. The only realistic approach to the problem is to adopt a trade-in policy which will recognize, in determining the allowance of credit, that the cost of building a new vessel in the United States far exceeds its norma value and that old vessels traded in would have a far greater value to a foreign ship owner, because of his lesser operating costs, than to the domestic owner. No trade-in and build program can succeed if the credit allowance is not sufficient to allow the vessel operator to acquire the new vessel at a price which is realistic in the light of the competition he must meet.

Because foreign-construction costs would be utilized in determining the allowance of credit, there are those who feel that these bills would simply provide construction subsidies for vessels used in the domestic trades. In December 1955 the Department of Commerce published a study entitled "A Review of the Coastwise and Intercoastal Shipping Trades," wherein it is concluded that no basis exists upon which construction subsidies can be justified for vessels to be operated in the coastwise trades inasmuch as foreign-built ships are prohibited from engaging in such trades. This study dealt primarily with the break bulk trades and only touched upon the coastwise bulk trades. It did not deal specifically with the Great Lakes. Nevertheless, the Maritime Administration seems to feel that the conclusions there expressed should apply with equal force to the commerce in bulk commodities on the Great Lakes. (See statement on Ore Vessel Construction and Operation, made by Deputy Maritime Administrator Walter C. Ford on March 14, 1956, before the Subcommittee on Merchant Marine and Fisheries of the Senate Committee on Interstate and Foreign Commerce.)

It should be pointed out that the fact foreign-built vessels are prohibited from engaging in the coastwise trades was not the primary reason the Department of Commerce voiced disapproval of a construction subsidy. Rather, the Department found that vessels engaged in such trades were not competitive with foreign-flag vessels in international trade but were competitive with domestic land carriers. This is the real reason subsidies are limited to United States-flag vessels engaged exclusively in foreign trade. It points up also why aid, such as that proposed in these bills, is necessary on the Great Lakes, whereas its universal application might not be justified.

There has never been substantial competition between Great Lakes vessels and the rails in the transportation of iron ore, coal, limestone, and grain. The rails move these commodities to the loading ports and receive them again at ports of discharge. The railroads recognize the advantage to them of the economy of vessel transportation and many of the loading and unloading facilities on the Great Lakes are owned and operated by railroads. It hardly seems likely that, in view of these facts, anyone could seriously contend that the aid proposed by these bills would have a detrimental effect on domestic land transportation.

Furthermore, these bills would not establish a precedent for the coastal and intercoastal trades. The practice of commingling domestic and foreign commerce in the transportation of bulk commodities does not exist except on the Great Lakes. On a number of occasions the Congress has recognized this important fact, one example being the exemption from economic regulation presently afforded Great Lakes bulk transportation under section 303 (c) of part III of the Interstate Commerce Act.

Indeed the Great Lakes are unique. Bulk commodities moving in international trade are the same as those moving in the domestic trade. Each serves the same economic purpose and frequently the same consumer. For example, after completion of the seaway, iron ore moving from Duluth to Buffalo may be mingled at the unloading dock with ore from Quebec-Labrador. The ore from these two divergent sources may be transported in similar, if not the same, vessels. There is no comparison between the Great Lakes situation and that which exists in the coastal and intercoastal trades.

Thus, while it may be true that foreign-built vessels cannot engage in commerce between United States ports on the Great Lakes, American-flag vessels engaged in the bulk trades, nevertheless, feel the effects of foreign-flag competition.

Great Lakes vessels play an important part in the marketing of our products. The more efficient our own vessels, the better United States industry and agriculture will be able to compete with foreign products as, for example, Lake Superior iron ore in supplying the needs of our steel industry and the United States farmer in marketing his grain.

Relief is urgent and should be immediate. The seaway, it is said, will be completed for the passage of large vessels upon the opening of navigation in the spring of 1959. Whether or not a trade-in and build program is enacted as an amendment to section 510 or as a separate section in the Merchant Marine Act, 1936, is immaterial. The important thing is that the Congress adopt an enlightened trade-in and build policy for Great Lakes vessels which will enable them to meet foreign competition and emergency needs.

With respect to international trade on the Great Lakes, United States vessels should be adequate, upon the opening of the seaway, to transport a substantial portion, at least 50 percent, of the existing and anticipated commerce in the bulk trades with Canada. It goes without saying that Great Lakes vessels under United States flag should be capable of moving all domestic commerce in time of peace and in time of emergency. It is with respect to emergency or war that a reserve fleet of bulk cargo vessels is urgently needed. When the overseas sources if iron ore and other strategic materials are cut

off, those materials will again have to be obtained in the Great Lakes area and will again have to be moved from the mines to the consuming mills in Great Lakes vessels.

Now what are the facts with respect to emergency requirements? Today the total annual ingot capacity of the United States steel industry stands at 128,500,000 tons. Representatives of that industry have stated that ingot capacity must be increased at the rate of 4 million tons per annum for a period of years to meet the requirements of our expanding national economy. In the matter of total iron ore requirements there does not seem to be complete unanimity among the authorities. If one follows the rule of thumb that approximately 1 ton of iron ore is required to produce each ton of steel, by 1960 the iron ore requirements of the steel industry will have reached 144,500,000 tons. On the other hand, if one adopts the very conservative estimate of the study of V. D. Johnston, published in the October 1955 issue of Skillings' Mining Review and to be discussed by Mr. Frank Pardee of the Lake Superior Iron Ore Association, the total amount of iron ore required by 1960 will be a little less than 139.3 million tons, still a very considerable volume. As to the sources of iron ore, the same study shows that about 81 million tons will come from the Lake Superior district, 17 million tons from other United States sources, 20,300,000 tons from Canada, and 21 million tons from other foreign or overseas sources.

Past experience has shown that in the event of war overseas sources of iron ore are closed completely so that in any future conflict the Lake Superior district and Canada will have to supply the greatly increased demand of the Nation's steel industry. In that event, a tremendous burden would be thrown upon United States vessels in the Great Lakes fleet. They would have to move not only all the iron ore mined in the Lake Superior district but probably the major proportion of that mined in Canada. On the basis of peacetime requirements alone, the minimum quantity of ore, iron ore, which United States vessels should be prepared to move by 1960 is about 112 million tons per season of navigation. At the same time other essential commodities such as coal, limestone, and grain would have to be transported in large volume. Over the last 5 years the commerce of these commodities has averaged about 73 million tons per season. It is likely to be greatly increased by 1960.

It stands to reason that, even with the most ambitious building program, the Great Lakes fleet cannot be built up to meet these requirements entirely. Therefore, a reserve fleet for use in emergency is essential. Many of the older vessels in the present-day fleet, while incapable of meeting foreign-flag competition, nevertheless, have considerable national defense value. Reference need only to be made to the previously mentioned obsolete vessels, which actually totaled 36 and which were traded in to the Maritime Commission in 1943. After those vessels were transferred to the Commission they were effectively utilized during the remainder of World War II in carrying iron ore and the other vital commodities. Having an aggregate per season carrying capacity of about 8,500,000 tons, their total contribution to the war effort, after trade-in, amounted to about 25,500,000 tons of basic raw materials.

In summary, then, it may be said that without the incentive proposed by these bills, the time will rapidly approach when American-flag

vessel capacity on the Great Lakes will decline to a level where it will be sufficient only to serve the domestic peacetime trades. In that event the people of the United States would be dependent entirely upon foreign-flag vessels to transport the vast quantities of bulk commodities moving between the United States and Canada. Such a situation is certainly not desirable in normal times; it could be tragic in time of war. These bills have as their objective the prevention of those developments. If enacted, they will offer real encouragement to Great Lakes vessel owners to replace many existing vessels with modern, efficient vessels which have some prospect of competing with foreign vessels. They will also establish a reserve fleet of Great Lakes vessels to meet future emergency needs.

I have some exhibits here which I would like placed in the record.

The CHAIRMAN. They may be made part of the record.

(The exhibits referred to are as follows:)

EXHIBIT 1

United States Great Lakes bulk freight vessels by fleets

Fleet	Number of vessels	Average age	Capacity of fleet
Members of Lake Carriers' Association:			*Tons*
American Steel & Wire Co	1	54	6,500
Bethlehem Transportation Corp., Cambria & Mahoning Steamship Co	12	35	156,500
Boland & Cornelius	23	42	217,700
Bradley Transportation Line	7	31	85,100
Brown Steamship Co	2	48	14,800
Buckeye Steamship Co	14	53	110,100
Cargo Carriers, Inc	3	50	22,500
Cleveland-Cliffs Iron Co	16	36	192,900
Columbia Transportation Co	26	45	202,600
Gartland Steamship Co	6	49	50,600
Great Lakes Steamship Co	16	41	169,600
Hanna Co., the M. A., agents	10	28	155,100
Huron Portland Cement Co	6	41	36,000
Hutchinson & Co., Managers Inland Steel and Pioneer steamship Co	22	41	251,100
Interlake Steamship Co	32	37	388,800
International Harvester Co	2	39	24,000
Kinsman Transit Co	5	50	46,700
Midland Steamship Line, Inc	4	45	41,900
Pittsburgh Steamship Division	59	36	792,300
Reiss, Rockport, and Red Arrow Steamship Co	12	40	124,700
Republic Steel Corp	3	10	42,000
Shenango Furnace Co	3	45	41,700
Tomlinson Fleet Corp	9	47	87,300
Waterways Navigation Co	1	54	6,800
Wilson Transit Co	14	43	158,600
Wyandotte Transportation Co	4	44	24,800
Others:			
Browning Steamship Co., T. H	5	49	47,700
Construction Aggregates Corp	1		(1)
Construction Materials Corp	1	72	(1)
Erie Sand Steamship Co	3	52	(1)
Ford Motor Co	3	23	43,750
Jupiter Steamship Co. and affiliates	3	56	20,000
McCarthy Steamship Co., T. J	3	54	(1)
Nicholson Transit Co	11	50	(1)
Penn-Dixie Cement Co	1	33	(1)
Total	343	(2)	3,562,150

[1] Not known.
[2] Known.

EXHIBIT 2

Great Lakes bulk freight commerce, 1951–55 (net tons)

BY COMMODITIES

Year	Iron ore	Coal	Stone	Grain	Total [1]
1951	99,783,053	50,945,656	25,871,319	13,150,144	189,750,172
1952	83,900,094	46,284,192	23,277,942	15,214,778	168,677,006
1953	107,345,783	51,034,713	26,999,207	14,317,229	199,696,932
1954	68,088,941	46,367,167	24,975,440	11,866,241	151,297,789
1955	99,870,369	53,378,385	29,722,293	10,787,786	193,758,833

BY DOMESTIC AND INTERNATIONAL TRADES

Year	Between United States ports	Between United States ports and Canadian ports	Between Canadian ports	Total
1951 [1]	158,059,000	24,093,000	7,598,000	189,750,000
1952	136,741,000	21,936,000	10,000,000	168,677,000
1953	165,196,000	24,500,000	10,000,000	199,696,000
1954	124,849,000	19,348,000	7,100,000	151,297,000
1955	161,358,000	25,600,000	7,800,000	193,758,000

[1] 1951 figures actual; other years estimates. All figures in total column are actual to nearest 1,000 tons.

EXHIBIT 3

United States bulk cargo vessels (iron ore, limestone, coal, grain, and similar commodities)

	Number of vessels	Trip carrying capacity (tons)
Conventional bulk type	284	3,106,453
Self-unloader bulk type	59	455,697
Total	343	[1] 3,562,150

[1] Approximate.

Year built	Number of vessels	Percent of total
1910 and prior	213	62.9
1911–20	46	13.4
1921–30	33	9.6
1931–40	4	1.1
1941–50	22	6.4
1951–55	25	7.2
Total	343	

EXHIBIT 4

Estimated St. Lawrence seaway traffic, by commodities

Commodities	U. S. Department of Commerce		Canadian Department of Trade and Commerce	Great Lakes St. Lawrence Association
	Minimum	Maximum		
Iron ore	30,000,000	37,500,000	20,000,000	21,000,000
Grain	6,500,000	11,500,000	10,400,000	10,000,000
Coal	4,000,000		4,200,000	6,000,000
Petroleum	6,000,000	20,000,000	1,091,000	2,000,000
General cargo	11,278,000		4,865,000	5,700,000

The CHAIRMAN. What is the situation in the lakes as shown by the television program shown yesterday, merely opening up the Great Lakes to the coastal trade which now exists on the 2 coasts, and also the foreign commerce existing on the 2 coasts?

Mr. SPENCER. It certainly opens up the domestic trade on the Great Lakes to the United States vessels from either coast, or both coasts. It opens up the large trade between the United States and Canada to the vessels of many nations, which, as I tried to point out here, have been limited to such a small size prior to the opening of the St. Lawrence seaway that they didn't really enter into the business very much. They brought things from overseas to the lakes, and they took things from the lakes overseas.

The CHAIRMAN. If a special privilege were granted to the operators on the lakes, wouldn't the same thing be requested by the operators on the Atlantic and Pacific coasts?

Mr. SPENCER. I have no doubt whether it would be. Whether they could justify it as well as we think we have justified ours, I could not answer, sir.

The CHAIRMAN. What would be the difference in justification?

Mr. SPENCER. A vessel in the domestic trade outside of the lakes is in that trade, and only in that trade. The nature of the business on the lakes is such that a vessel is in the domestic trade 1 day, the next day she is in the foreign trade, going to Canada or coming back from Canada to the United States. It would be almost impossible to separate those two trades, for an operator to say "I will put this vessel merely in trade between the United States and Canada."

The CHAIRMAN. Would the bulk trade operators do the same thing in the lakes?

Mr. SPENCER. So far as I know the ore carriers are all in the foreign trade, and only the foreign trades. I don't know of any cargoes available to them in iron ore between ports of the United States except on the Great Lakes.

The CHAIRMAN. How about grain cargoes?

Mr. SPENCER. I don't know of large grain cargoes moved from one coast to another. The grain comes into the seaports and goes from there overseas, so that is entirely a foreign movement. You could well move grain from Milwaukee, Chicago, or Duluth to Buffalo, for instance.

The CHAIRMAN. You mean in this brief you will have just a different operation from what now exists on the Pacific and Atlantic coasts so

far as coastal, intercoastal and foreign commerce is carried out and as it exists?

Mr. SPENCER. We now have something which is different from any place else and I think it will continue to be different.

Mr. ALLEN. I am apparently struck with the same thought you are in that regard. I do not see from the statement you have made, which I think is a very fine one, and I want to say at the outset I am pleased that the Great Lakes is getting into the same category as the rest of the seaboard areas, but I do not see from your statement where your situation differs at all from the coastal situation except possibly in the matter of degree and in the fact that there is such predominance of bulk cargoes rather than distribution of cargoes which we get along the seaboards.

I was wondering if you could not integrate the solution of the problems for the Great Lakes area with a general policy which would apply to the entire Nation.

To be a little more specific, I do not see where your interstate traffic on the Great Lakes is much different from the coastal or intercoastal traffic which we now have. On the international traffic I don't see where there is much difference in that respect.

Mr. SPENCER. I think the only difference, Mr. Allen, is that we mingle the two together from one day to the next. A vessel may be in purely domestic trade today and in international trade tomorrow. It is only because of that efficient and effective use of our ships that we are able to carry cargoes at such a low rate.

I am sure you will agree that no place in the world are cargoes carried for as low a rate, bulk cargoes, as they are carried on the Great Lakes.

Mr. ALLEN. I think I would agree to that, but also tie it up with the fact that no place else is there that type of trade which would permit the use of that type of vessel.

Mr. SPENCER. Perhaps that is so.

Mr. ALLEN. I don't see, for example, where you are in a much different situation except in degree between a vessel which runs from California to Manila and wants to take over part of the domestic trade of the Hawaiian Islands.

Mr. SPENCER. I am not familiar with their operations, sir, and what benefits they get, if any, what inducements they get to continue in that trade. I cannot discuss that with you.

Mr. ALLEN. Why would you want the ships allowance based on a foreign cost in the lowest foreign yard for these ships while under the general Merchant Marine Act it is the cost of a ship in a representative foreign yard?

Mr. SPENCER. We would settle for the representative yard, sir.

Mr. ALLEN. The point of the comparison would seem to me to be that you are considering yourselves as a problem apart rather than as part of a national problem, a national problem in which I want to assure you I want to do everything I can to help solve.

Mr. SPENCER. I know that from your record, sir. We think perhaps it is because we are so much more familiar with our own trade than we are with the ocean trade, there never has been a connection between the two, and there never will be to amount to anything up until the St. Lawrence seaway. Perhaps we have missed some things on the others and are asking for something different

where what now exists for others might be fitted into our program. I think there are some basic differences and those basic differences will continue even after the St. Lawrence seaway is opened.

The CHAIRMAN. As I see it, the port at Chicago will be the biggest port in the United States?

Mr. SPENCER. I don't expect to live to see that, Mr. Chairman.

The CHAIRMAN. That is the forecast.

Mr. SPENCER. I know that, sir, but I am getting too old to wait that long.

The CHAIRMAN. That was on television yesterday. Maybe the table will be turned around. Some of the Atlantic ports will say they need further special consideration.

Mr. SPENCER. I suppose that is possible. I think you will find, though——

The CHAIRMAN. You are caught with an old fleet up there, 40 and 50 years old, and you want some way of replacing it.

Mr. SPENCER. We want to get something with which we can compete with the ships of any foreign nation which may come in there as much as we can.

The CHAIRMAN. Won't the same coastal commerce be reserved to American-flag vessels there which are now reserved to American-flag vessels on the Atlantic and Pacific coasts?

Mr. SPENCER. Under present law it certainly would; yes, sir.

The CHAIRMAN. Why should there be a greater preference then?

Mr. SPENCER. Apparently I am not a great explainer. What I have been trying to say is this: We put our ships in both domestic and foreign trade, one right after the other all mixed up.

The CHAIRMAN. We have that identical situation which Mr. Allen pointed out.

Mr. SPENCER. I don't know how they would work that, sir. I am sorry I am so ignorant on that, but I do not know that operation.

The CHAIRMAN. This committee is greatly interested in the development of waterborne commerce on the lakes.

Mr. SPENCER. I know that.

The CHAIRMAN. At the same time we must be careful to see we do not get ourselves in such an entanglement that we will be criticized.

Mr. ROBESON. You use 343 vessels according to your exhibit. Are they all in operation?

Mr. SPENCER. Yes, sir.

Mr. ROBESON. Is that a satisfactory number of vessels for the trade offered now?

Mr. SPENCER. I think we probably will be able to meet the demand this year; yes, sir. It means every vessel will be operating to full capacity and probably to a late season in order to meet it, but they will meet it, I am sure.

That has been a boast up there before I ever went to the Great Lakes, that there never was any demand made on the fleet that they had not met, whether it is almost no cargoes during the early thirties or whether it is the peak wartime cargoes. They have always met it some way or other.

Mr. ROBESON. Several times you mentioned a need which would occur if there were a national emergency or a war. I wondered if part of the demand for this legislation now was in anticipation of an emergency as well as the present need?

Mr. SPENCER. I think both of them, sir. As I pointed out last year, we retired 15 ships for which there was no replacement. It was not economical to run them.

There was a call for their services to use principally for grain. They went to a grain company to store grain because there was not sufficient elevator capacity.

That may continue, that trend may continue, because our vessels are getting old. It costs a lot of money to build a new vessel nowadays.

Mr. ROBESON. That leads me to something else. I notice that the average shows them as being pretty old, and it seems two-thirds were built prior to 1910 according to the exhibit.

Mr. SPENCER. That is right.

Mr. ROBESON. You say this legislation must be realistic enough so it will be of use to you. If it was realistic enough as you have the definition in mind, how many ships do you think ought to be built?

Mr. SPENCER. If we are talking only of peacetime commerce——

Mr. ROBESON. I would as soon talk that. I personally don't look forward to any war in our lifetime.

Mr. SPENCER. I agree with you. That is why we suggest the reserve fleet. I would not expect there would be more than three vessels built a year under even this program That would be 3 vessels of anywhere from 15,000 to 20,000 tons.

That would mean this: You would be turning in more than three old vessels to reach somewhere near the same tonnage. If you build 3 ships of 18,000 tons, that would be 54,000 tons. In order to get 54,000 tons of this old capacity which you will turn in you would have to turn in roughly 6 ships probably.

Mr. ROBESON. A total of 343 ships exist, and two-thirds are old; I don't know whether you figured on building about 200 ships in a few years or how many you had in mind.

Mr. SPENCER. I don't think that would be possible, sir. All of these ships will not become completely obsolete immediately.

Mr. ROBESON. I thought perhaps the realistic approach might be so attractive that——

Mr. SPENCER. Even if under this you got 45 percent, we will say, from some other source, the shipowner still has to put up some $4 million for new ships. He cannot put up too many of those in any one year by any means.

Mr. ROBESON. You do not anticipate this number of ships a year even if we go through with this program?

Mr. SPENCER. It will be a long-range program and will not happen overnight by any means.

Mr. KLUCZYNSKI. Mr. Spencer and I have met before in the Public Works Committee, when Mr. Spencer and his great organization spoke against my lake diversion bill. Then we were on the same side in the St. Lawrence seaway, and concerning my bill on the Cal-Sag Canal which widened and deepened the Cal-Sag Canal which was the last link of the St. Lawrence seaway and the Gulf of Mexico.

What the chairman said about the port of Chicago I hope comes true.

The CHAIRMAN. I said it was predicted.

Mr. KLUCZYNSKI. I saw that program yesterday afternoon. It was an interesting program which Dave Garroway showed. It showed the future of the iron ore coming in Labrador.

In your statement, Mr. Spencer, you said that 30 years ago American vessels carried 76 percent of all the Great Lakes commerce. Is that right?

Mr. SPENCER. Seventy-six percent of the commerce——

Mr. KLUCZYNSKI. American vessels?

Mr. SPENCER. Between Canada and the United States, yes.

Mr. KLUCZYNSKI. And now we are down to 29 percent?

Mr. SPENCER. Yes; that is right, sir.

Mr. KLUCZYNSKI. Don't you believe if the St. Lawrence seaway is opened that we will have all the foreign-flag vessels coming through and the American-flag vessels will be out, and you will be the president of no organization at all? It looks as though we will be out entirely.

Mr. Chairman and members of the committee, this is important legislation not only to us in the Midwest and in the Great Lakes area but the country grows up with the great Midwest.

I remember when we had the St. Lawrence seaway under discussion in our committee, the railroads were opposed to it. I asked the president of one of the railroads if he thought that the canal would put them out of business.

Of course, he didn't think so, but I told him that the railroads would grow with the canals. That is what happened in Chicago.

Just a couple months ago the railroads bought a lot of property there for their terminals, so I say that the country grows up with the St. Lawrence seaway and the Midwest.

I hope this committee gives this important legislation careful study.

I am very much interested in it, the same as the members who have introduced this legislation.

Mr. Spencer has explained it very well. I am sorry I am not a member of this subcommittee but I hope you report this bill favorably to the full committee.

The CHAIRMAN. I assure you we will give you careful study.

Mr. KLUCZYNSKI. Thank you, Mr. Chairman.

The CHAIRMAN. The situation on declining freight is no different on the Great Lakes than it is on the coasts on each side of the country. International commerce has gone down tremendously. You are no different there from what the situation is on the Pacific and the Atlantic coasts.

Mr. SPENCER. You have done some things to try to retain that business which we never asked for on the lakes.

The CHAIRMAN. We are opening you up so you will be one of the competitors.

Mr. SPENCER. That is possible.

The CHAIRMAN. It is true.

Mr. SPENCER. Going from the lakes to foreign, that is right. Of course, the types of ships we are talking about are not capable of getting into that trade with Europe, sir.

The CHAIRMAN. As I said before, the whole question is replacing the old fleet.

Mr. SPENCER. That is right.

The CHAIRMAN. That is the major question.

Mr. SPENCER. We do not contemplate replacing the old vessels with new vessels which will go across the ocean, sir.

The CHAIRMAN. I understand that.

Mr. SPENCER. We cannot build as efficient a vessel which will go across the ocean and still carry these huge bulk cargoes.

The CHAIRMAN. Just as certain as the day turns to night, day in and day out, you will get into a piggy-back operation there.

Mr. SPENCER. I have no doubt of that.

The CHAIRMAN. When you get into that what will you say? Will you want the same thing for the construction of piggy-back vessels?

Mr. SPENCER. I hesitate to speak on that.

The CHAIRMAN. I am trying to show you what the committee will be faced with.

Mr. SPENCER. I realize that.

The CHAIRMAN. We will have to look into the future a little bit. We have to deal with the problem realistically as much as we are anxious to help. There is the problem we will face if this legislation would come to pass.

Mr. SPENCER. I realize that, sir. I think my sole purpose here——

The CHAIRMAN. You don't think you will keep the Great Lakes bottled up as they have been bottled up?

Mr. SPENCER. I am sorry to say I don't think that.

The CHAIRMAN. That is why I say you will get into all this other type of commerce. You are treading on thick ice up there but we are treading on thin ice here with this bill. I am trying to find the solution for your obsolete ship problem. That is what it amounts to.

Mr. ALLEN. I notice the bill states that the ships should be built in a Great Lakes shipyard. Would it not be consistent with national policy to say they should be built in the United States, or, on the other hand, to change our national policy to say ships operating from the Pacific coast should be built on that coast and ships on the gulf built on the gulf coast, and have just one policy?

Mr. SPENCER. I think there are two reasons why that is in there, and, of course, it can be changed. There is no question about that.

One is that at the present time, and until the St. Lawrence seaway is opened, it is much more expensive to build a vessel on the coast than it is to build one on the lakes, because you have all that additional expense of transporting it up the Mississippi River and around into the lakes, which would cost probably another million dollars over the actual cost of the building of the ship.

Mr. ALLEN. Then the competitive situation would keep it on the Great Lakes.

Mr. SPENCER. Until the St. Lawrence is built; yes.

To be perfectly frank, sir, another reason for that in there is that the policy adopted by the United States has given the shipyards on the coast quite a bit of business, right now and for the coming few years, and the yards on the Great Lakes have none. Those yards on the Great Lakes are very important not only to the shipping business on the Great Lakes now but in time of an emergency, too.

If they have no business they will lose their organization of men, their competent leading men, and men with the ability required for shipbuilding. I think that is another one of the reasons we put it that way. It can be changed.

Mr. ALLEN. I think I remember saying the same thing myself about the Pacific coast.

The CHAIRMAN. Mr. Allen and myself have 2 or 3 friendly conversations from time to time as between the Atlantic and Pacific coasts. We don't want to give them any more preference than they already have.

Mr. SPENCER. I don't think any has been built on the Pacific coast.

The CHAIRMAN. You are going to have shipyards. You need not worry about that.

Mr. SPENCER. I think so, too. We have 3 years here, and how much of their organization will be left if they don't get some business during that 3 years is hard for me to tell.

The CHAIRMAN. Are these ships in the reserve fleet capable of using the bulk carrier ore service?

Mr. SPENCER. Yes, sir. The only example we have had is that one during World War II when the Government built 16 ships up there on the Great Lakes.

The CHAIRMAN. What type?

Mr. SPENCER. Bulk cargo vessels.

The CHAIRMAN. They were not——

Mr. SPENCER. Great Lakes type.

The CHAIRMAN. Victory- or Liberty-type ships?

Mr. SPENCER. No, sir.

The CHAIRMAN. Those ships are not capable of ore transportation?

Mr. SPENCER. Not efficiently.

The CHAIRMAN. Are some being used today as ore carriers?

Mr. SPENCER. Some C–4's were brought up to the lakes and converted into bulk carriers.

The CHAIRMAN. I mean by the industrial operators?

Mr. SPENCER. Not on the lakes to my knowledge.

The CHAIRMAN. I am not talking about on the lakes but on the coasts.

Mr. SPENCER. They use them for coal and things like that. Whether they are used for ore I couldn't answer.

The CHAIRMAN. They could not be used on the lakes?

Mr. SPENCER. They certainly would not have anywhere near the efficiency that a vessel built for that trade has.

Mr. PELLY. I had in mind that possibly there should be a greater differential perhaps for the coastal ships for this reason: That in the competition with foreign-flag vessels the foreign-flag vessel cannot engage in interstate transportation.

Mr. SPENCER. That is right.

Mr. PELLY. Therefore it seemed to me under the provisions of this bill it would be more favorable to the Great Lakes carriers if actually the American-flag vessel has greater flexibility and is able to engage in interstate and domestic transportation, it would have an advantage over the foreign-flag vessels which American-flag ships on the coast do not have.

Mr. SPENCER. I do not believe that is a fact, sir. We had 1 foreign ship come up there 3 summers ago and spent the whole summer traveling back and forth between Canada and the United States with grain cargo.

Mr. PELLY. I agree none of the ships can compete with a low-wage foreign-flag vessel. I am drawing a comparison as between a Great Lakes bulk carrier and a coastal bulk carrier. It seems to me there should not be a great differential because that additional factor they have is engaging in domestic trade which the coastal bulk carrier might not enjoy.

Mr. SPENCER. In international trade part of the time, you mean?

Mr. PELLY. Yes.

Mr. SPENCER. I don't know that that is any great advantage except it keeps them employed.

Mr. PELLY. That was the reason you gave as to why Great Lakes bulk carriers should enjoy a greater subsidy for construction purposes than one engaging in trade purely on the coast?

Mr. SPENCER. I tried to point out the peculiar trade up there where they are in one trade today and in another one tomorrow, so in order to get any help you just have to consider them differently as far as I can see. Maybe I am missing your point, sir.

The CHAIRMAN. Are they industrial carriers or private operators?

Mr. SPENCER. These 343 I mentioned are both, sir.

The CHAIRMAN. Industrial as well as owned privately?

Mr. SPENCER. That is right.

The CHAIRMAN. What would be the difference in the *Standard Oil Operation* from Texas to New York in the coastal trade as a bulk carrier, and that vessel perhaps dropping down to Mexico and Venezuela to get a cargo. What would be the difference?

Mr. SPENCER. I don't know that there would be any, sir.

The CHAIRMAN. There is a problem we face.

Mr. SPENCER. I had not thought of that. Offhand, I have to agree I see none.

The CHAIRMAN. The oil companies have bulk carriers running between the Texas ports to New York, Boston, and so forth. They will be coming around to Chicago, too.

Mr. SPENCER. Yes.

The CHAIRMAN. They might go off to Venezuela for cargo, to Mexico for cargo, and around to Chicago and New York. What would be the difference?

Mr. SPENCER. There undoubtedly are some similarities in those operations.

The CHAIRMAN. Aren't they identical?

Mr. SPENCER. Certainly similar. They are speaking——

The CHAIRMAN. I am asking these questions in a friendly spirit.

Mr. SPENCER. I am trying to answer them to the best of my ability.

The CHAIRMAN. I am just trying to bring out in the hearings the complications and the entanglements this committee is about to get into.

Mr. SPENCER. Those trips that you speak of of the tanker are of course long trips. That is one difference that I see.

The CHAIRMAN. It is all bulk cargo. It does not make any difference whether it is a long trip or a short trip. You will have some long trips from Chicago to the Atlantic Ocean. You are going to have trips from Chicago to the coast and abroad and so forth. So as a rule after this thing is opened up, there will be no difference in the bulk carrier domestically, or in foreign operations.

Mr. SPENCER. The only difference I see is the frequency they change from one to the other. He may be carrying a domestic cargo 1 day and foreign trade for 3 or 4 days. I think that our frequency of change, one to the other, is much higher.

Mr. PELLY. I think you are bringing out the very point that I had in mind. I am thinking of industrial plants on the east coast who might expect to bring ore from Labrador. They would be entitled to transportation at an equal cost, it seems to me, with any

industrial purchasers of ores in the Great Lakes, and if these Great Lakes carriers were given a greater subsidy it would be unfair to the coastal purchasers of that ore.

Mr. SPENCER. It is quite possible you will find those people on the east coast are being supplied with ore carried in foreign vessels, so they do get the advantage of the low cost foreign operations.

Mr. PELLY. Certainly as a representative of the Pacific coast, I welcome the inclusion of the support of the Great Lakes area and their representatives to the needs of our martitime world. I think we will benefit by all getting together. It comes to me maybe that we should work toward the common objective of having equal but maybe separate facilities for carrying bulk cargo.

Mr. SPENCER. I certainly could not object to that. You realize my purpose here is to try to tell the story of the Great Lakes, because not too many people outside the Great Lakes region have much idea of how things are done up there and what the operations are.

Mr. DREWRY. Mr. Spencer, you have no competition from foreign flag vessels between ports in the Great Lakes under the existing coastwise laws, but you state——

Mr. SPENCER. Just one moment—no competition?

Mr. DREWRY. No foreign competition in trade between ports in the United States on the Great Lakes.

Mr. SPENCER. No, not between ports in the United States. Only during wartime did Congress see fit to remove that restriction and permit the Canadian vessels to assist in carrying between United States ports, and that was as a wartime measure only.

Mr. DREWRY. On page 6 of your statement you say that it would be a fallacy to assume in purely domestic trade Great Lakes vessels would be free from the effects of foreign-flag competition. Now, what you are talking about there is really competition between commodities rather than vessels, is it not?

Mr. SPENCER. That would be another way of putting it. In other words, if foreign-flag vessels carry this iron ore from other sources, then that much less iron ore needs to be carried between domestic ports on the Great Lakes.

Mr. DREWRY. How is that different from any intercoastal movement? How is that different from any intercoastal movement where some foreign commodity is able to compete with an American commodity?

Mr. SPENCER. I do not suppose it is any different. As I have tried to say, I am only telling the story of the Great Lakes. I do not know the other story as well as I know the story of the Great Lakes. I would hesitate to make a comparison.

Mr. DREWRY. In that case, would it not be that the aid that is sought here would be to help make American-produced ore competitive with foreign-produced ore rather than help American vessels compete with foreign vessels?

Mr. SPENCER. Well, I suppose if you go back far enough, that is true.

The CHAIRMAN. Any further questions of the committee?

Mr. ALLEN. Mr. Spencer, if we should get into a situation where we are trying to formulate one policy for the Nation, I am wondering should we consider the fact that the vessels in large part never leave fresh water while the other vessels are in salt water? I suppose the depreciation is different on the two ships.

Mr. SPENCER. Very much different. As you can see here, many of our ships are already 50 years old and still have many years of useful life. They can be used. They are not as economical in use as the new ships, but they can be used. In fact, there are some shown here that are 60 years old today and they still have some life left in them. On the ocean I doubt if you would find many of them running today that are over 25 years old.

Mr. ALLEN. Is it not also true that the months of operation in the Great Lakes are far less than the months of operation for seagoing vessels?

Mr. SPENCER. Well, it depends, I think, by what you mean by "operation." The ship is in the water just as long on the lakes as in the ocean. During the operating season the ships are in port maybe 4 hours to unload and maybe 2 or 3 hours to load and then they are running all the rest of the time. Your salt-water ships are in port for days and weeks loading and unloading. The operation is just as strenuous for the 8 months we operate, if not more so, than it is for the 12 months of the salt-water ships' operation.

I do think that our operation has this advantage: the vessels are laid up for approximately 3 months and all the work they need to keep running the next 8 months is done then. It may be that they get a little better attention on repairs and maintenance than the salt-water ships. I do not know that to be a fact. It is possible that is the way it would work out.

Mr. ALLEN. Insofar as the machinery is concerned, the life would be comparable on both seagoing and Great Lakes vessels?

Mr. SPENCER. I think so, yes. Many of our ships are reengined during their lifetime.

Mr. ALLEN. But with regard to the hulls, I suppose the life of a hull on the Great Lakes would be 2 to 2½ times the life of a hull on salt water.

Mr. SPENCER. Certainly twice at least.

Mr. DINGELL. I would like to thank you and the committee again for this opportunity. As you know, I come from the Great Lakes region and I am extremely interested in this problem and I want to do everything that I can for my people.

There are a number of problems that concern me. I would like to ask a few questions.

Is there any Canadian discrimination against the American cargoes in American bottoms in the Great Lakes area?

Mr. SPENCER. There is nothing in the laws that I know of that does that. I have heard rumors of cases where the Grain Board in Canada has kept cargoes from United States ships, but it is a rumor only. I certainly cannot bear it out.

Mr. DINGELL. You mentioned this new tax law in Canada on page 5 of your statement. You mentioned how that permitted them to depreciate approximately one-third of the vessel during the first year of its operation. Do not we have a similar tax law in this country which permits a very accelerated rate of depreciation of a vessel?

Mr. SPENCER. Only if the Office of Defense Mobilization grants rapid amortization; certificate of necessity.

Mr. DINGELL. Is it not true that there is a new depreciation law that just went through in this most recent tax law which permits a

considerable accelerated rate of depreciation on large capital investments?

Mr. SPENCER. I am not sure.

Mr. DINGELL. I think it does. I would appreciate it if you would look at that.

Mr. SPENCER. Mr. Johnson, our counsel, says it does not.

(Additional material furnished by Mr. Spencer follow.)

LAKE CARRIERS' ASSOCIATION,
Cleveland, Ohio, June 14, 1956.

Congressman HERBERT C. BONNER,
Chairman, Committee on Merchant Marine and Fisheries,
House of Representatives, Washington, D. C.

DEAR MR. BONNER: In the course of the hearings held by your committee on H. R. 8886 and similar bills on June 4, 1956, I was asked by a member of the committee how many of the bulk-cargo vessels on the Great Lakes were so-called captive vessels. As an offhand answer I replied that roughly 50 percent of the fleet would fall under this heading. It now appears that such answer was incorrect.

The term "captive vessel" has no rigid meaning but I understand it to mean a vessel which is used by her owner to carry cargo for himself or for affiliated interests. Following this definition a careful check shows that 118, or 34.4 percent of the 343 vessels comprising the Great Lakes fleet of bulk carriers, might fall within this classification.

I was also asked by the same member of the committee about the ownership of the vessels which had been sold by the Government to interests on the Great Lakes during the Korean war. Upon inquiry I am told that the five are now owned as follows:

Owner	Number of vessels	Operation
Republic Steel Corp.	3	Bulk-cargo trade.
Hansand Steamship Corp.	1	Do.
Amersand Steamship Corp.	1	Self-unloading trade.
Sand Products Corp.	1	Passenger trade.

It would be appreciated if this letter can be made a part of the record of the hearings on June 4, 1956, being inserted immediately following my testimony.

A copy of this letter is being furnished Congressman Dingell, who asked the questions referred to above.

Very truly yours,

LYNDON SPENCER.

LAKE CARRIERS' ASSOCIATION,
Cleveland, Ohio, June 15, 1956.

Congressman HERBERT C. BONNER,
House of Representatives,
Washington, D. C.

MY DEAR MR. BONNER: The accompanying editorial indicates how one of America's leading newspapers regards legislation now before Congress to authorize trade-in allowances for obsolete Great Lakes freighters.

You will recall that S. 3108, which embodies this proposal, has already been approved. The Merchant Marine and Fisheries Committee recently held hearings on the same proposal, as set forth in H. R. 8886, 8894, 8896, 9008, 9030, and 9036.

We believe this editorial treatment indicates the thinking on this subject of many informed people throughout the Nation.

Sincerely yours,

LYNDON SPENCER.

78872—56——6

[From The Plain Dealer, June 14, 1956]

SHIPPING AND THE SEAWAY

Not in all corners is there unbridled optimism about the St. Lawrence seaway. Great Lakes shippers, operators of the familiar ore and grain carriers, are apprehensive of losing trade to foreign lines in time. There appear genuine grounds for such fears, since a number of European outfits are making noises as if they were about to tackle the opportunity.

It is a chance which does not exist today. Ore movement on the lakes is a coastal proposition, strictly controlled by law. Our ships, for example, can pick up ore in this country and freely deliver either in the United States or Canada. But we cannot haul Canadian ore to a Canadian port, and by the same token no Canadian vessel can engage in direct competition here.

Geographically, of course, it has been impossible for anything save Great Lakes-built vessels to engage in such service. However, as Mesabi deposits peter out, it puts much greater emphasis on the need for Laborador ore via the seaway. Movements in that direction inevitably will boom, and as things stand there is nothing on the books to bar anybody from entering this new international trade route.

The bugaboo is the same one that has perpetually plagued American shipping—low costs of shipbuilding abroad and their fractional operating expenses, brought about by low wages to seamen.

We often hear of complaints from America's merchant marine about this competition and the Government tries to alleviate or equalize the situation by both building and operating subsidies. The policy dates back to 1936 and the Merchant Marine Act of that year. Those Government payments neither guarantee a profit nor insure against loss. They can be likened to a golfer's handicap, designed to provide equal opportunity.

For lake operators, though, the situation is not precisely comparable even with the opening of the seaway. Unfortunately the Merchant Marine Act specifically excludes lake ships from construction or operating differentials, because such aid is restricted to common carriers. Which the lake bulk ships definitely are not.

Compounding the predicament is the fact that America's ore fleet is perilously close to obsolescence. By 1960 better than 213 or 82 percent of the 343 lake vessels will be 50 or more years old. Since World War II only 25 new ones have been built; not one is presently on the ways. Simultaneously the Canadians have added 223,000 tons of carrying capacity to their fleet, a move spurred by a Government tax fillip whereby 33⅓ percent of the capital cost of ship construction can be depreciated in any 1 year.

As a spur to building new ore ships, a bill now pending in Congress calls for trade-in allowances on old freighters. It would equalize the difference in cost of building a new ship abroad or here. The measure has passed the Senate but is facing opposition in the House.

There ought not be any objections. Ore freighters are an absolute essential in time of war and constitute a key arm of our national defense. Experience of past wars has been that European-operated ships run for home immediately, which could leave this country worse than high and dry if it lacked a fleet of ore carriers.

We grant depletion allowances for raw material producers, accelerated tax write-offs to defense industries and assorted help to the economy as a whole. Already the Government protects a major segment of American shipping against competition abroad. While the Plain Dealer has not looked kindly upon subsidies generally, there should at least be consistency about them. The lake shippers deserve a fair share as much or more than anyone else.

STATEMENT OF GILBERT R. JOHNSON, COUNSEL, LAKE CARRIERS' ASSOCIATION

Mr. JOHNSON. I think that Mr. Dingell is talking about the three methods of depreciation which were available under the Internal Revenue Code apart from rapid amortization. One was ordinary depreciation, two is the sum of the digits and three is the decline balance method. But certainly, you could not get anything like that which is obtained under the Canadian law under anything that is available under our law.

Mr. DINGELL. But only because of the age of these vessels?

Mr. JOHNSON. No. We are talking about new facilities.

Mr. DINGELL. It would not be available for new vessels?

Mr. JOHNSON. It would not. You would get nothing anywhere comparable to that which the Canadian vessels get under their law.

Mr. DINGELL. What is the maximum you can depreciate a new vessel in any 1 year?

Mr. JOHNSON. I do not know.

Mr. DINGELL. Under our tax law what is the maximum?

The CHAIRMAN. Let us hold to this. We must consider this in the light of what exists now with the operators and coastal and intercoastal business. All of this will be alike to the same people. We must hold the discussion in that light. Will it be applicable to a coastal vessel, or an intercoastal vessel or a foreign vessel flying an American flag?

Mr. JOHNSON. Mr. Bonner, the rules of depreciation are different for vessels on the Great Lakes than those on the high seas. With regard to the new vessels, that we will say was built, or has been built since 1940, my information is she is being depreciated under a rule of a 60-year life. If you were to build a new ship, under the present law, I do not see how you could hope to convince the Bureau of Internal Revenue you should be permitted to depreciate that ship in as short a time as 30 years. So, as I say, we do not have anything in our law that is comparable to that which is available to the Canadian vessel owner.

Mr. DINGELL. Is section 510 applicable to captive fleets?

Mr. SPENCER. As far as I know, any ship under the United States flag.

Mr. DINGELL. Now, depreciation apparently is a combination of two things—age and obsolescence, is that right?

Mr. SPENCER. As Mr. Johnson just pointed out, it depends entirely on what the Internal Revenue Department says about the ship.

Mr. DINGELL. Obsolescence is a combination of age and technical change; am I right?

Mr. SPENCER. I think that is right.

Mr. DINGELL. You have a large number of vessels here which have apparently remarkable age, some 40 and some 50 years, and some as high as 70. Can you tell us that any of these vessels, because of age alone, are obsolete?

Mr. SPENCER. No. They can carry just as much iron ore today as when they were built, but they cannot keep up with the new ships. Therefore, you can get a much more economical and efficient operation with the new ship than you can with the old one. The older ones are slower. It takes them longer to carry 7,000, 8,000 or 9,000 tons than it does a modern ship to carry 20,000 to 22,000 tons of cargo.

Mr. DINGELL. Are you wedded to any specific form of this bill, or would you be agreeable to changes?

Mr. SPENCER. That is entirely up to the committee. We have nothing to say about that.

Mr. DINGELL. You are here to testify in favor of the bill. Are you agreeable to having certain changes made along the general forms to obviate the objections that the General Accounting Office raised?

Mr. SPENCER. I did not hear or see anything in the statement of the General Accounting Office this morning that we would object to very strenuously.

Mr. DINGELL. In other words, you would be agreeable to a bill which would conform to the general recommendations and the objections of the General Accounting Office?

Mr. SPENCER. To the specific point that he raised a question on, yes. To the general opposition to the bill, no, sir.

Mr. DINGELL. Now, captive fleets make up what percentage of the lake vessels?

Mr. SPENCER. I cannot speak for the whole lake industry. For the vessels enrolled in our association, roughly 34 percent.

Mr. DINGELL. You have no Canadian vessels?

Mr. SPENCER. We have no Canadian vessels.

Mr. DINGELL. Canadian vessels have crews that are members of the same union and man your vessels, as well, is that not right?

Mr. SPENCER. There again I hesitate to answer. I think they all belong to the CIO, or the A. F. of L., one or the other.

Mr. DINGELL. And the wage scale is the same for a Canadian vessel as for an American vessel.

Mr. SPENCER. No, indeed.

Mr. DINGELL. What is the differential?

Mr. SPENCER. I cannot tell you that today because the Canadians have just undergone a strike and been granted an increase in pay and we have not been able to find out what they are yet.

Mr. DINGELL. What were they prior to the strike?

Mr. SPENCER. About 60 percent of ours.

Mr. DINGELL. And the differential between an American yard and ours would be about what?

Mr. SPENCER. About 60 percent.

Mr. DINGELL. We see the possibility of trading in 300 vessels. Are you agreed to having a limitation put on the number of vessels that can be traded in?

Mr. SPENCER. Over a long period or a short period?

Mr. DINGELL. At a yearly rate?

Mr. SPENCER. Absolutely agreeable.

Mr. DINGELL. You mentioned vessels are being taken out and not replaced. Is it not a fact that Canadian vessels are being taken out and not replaced in the same manner as United States vessels on the Great Lakes?

Mr. SPENCER. I am not as familiar with their fleet as ours, but I do not know of any large number of vessels that have been taken out of the Canadian fleet, and they have added something over 300,000 tons of cargo capacity. I have forgotten the exact figure.

Mr. DINGELL. If I do not misremember, I believe I read in the newspapers where it was stated that the Canadians have taken out about 8 to 15 vessels and I believe the vessels taken out for grain storage were Canadian vessels.

Mr. SPENCER. No; any vessel in the Great Lakes trade might be used for grain storage during the winter months. These I spoke of were taken out of the United States fleet and they were used for year-round grain storage. They are no longer running up and down the lakes. They are just held in port.

Mr. DINGELL. You referred to the situation where the C–4's were permitted to be purchased and altered with assistance from the Federal Government for travel on the Great Lakes. At the time that bill was before this committee I was not a member, but as I recall from

what I have been able to learn the statement was made that it would help the carriers on the Great Lakes. Am I right?

Mr. SPENCER. Those vessels did help a great deal in meeting the demand for ore during the Korean emergency.

Mr. DINGELL. But those vessels that I am referring to were supposed to help the carriers on the Great Lakes generally. Am I correct?

Mr. SPENCER. I could not answer. I do not know. As far as I know, they were to help meet the demand for bulk commodities brought about by the Korean difficulty.

Mr. DINGELL. But those vessels went out and wound up in captive fleets, all of them. I think that there were some 8 or 10.

Mr. SPENCER. Six is all I know about.

Mr. DINGELL. They wound up in captive fleets.

Mr. SPENCER. Three of them did; 3 did not.

Mr. DINGELL. Where did the odd vessels wind up?

Mr. SPENCER. They went to the M. A. Hanna Co., Amersand Steamship Corp., and Sand Products Corp.

Mr. DINGELL. Hanna is also a captive fleet.

Mr. SPENCER. I would have to have your definition of a captive fleet. Is a noncaptive fleet a company that runs nothing but ships?

Mr. DINGELL. That would be my definition.

Mr. SPENCER. Under those terms they did all wind up as captive ships.

Mr. DINGELL. So that bill really did not help the carriers, the independent carriers on the Great Lakes.

Mr. SPENCER. If you want my honest opinion, those ships did not help anybody except to tide us over an emergency. Even with all the money that was spent on them by the people who bought them to make them into bulk carriers, they are still not efficient ships. They were badly needed at that time to meet the demand for iron ore resulting from the Korean difficulty. They did help in meeting that demand. They are still being used, but they are not efficient ships by any stretch of the imagination.

Mr. DINGELL. The point I am making is, if we pass this bill is there not a high degree of possibility a large amount of the aid that we are going to give the Great Lake carriers will go to the Bethlehem Transportation Co., and I have nothing against these particular organizations, and the American Steel & Wire Co.?

Mr. SPENCER. American Steel & Wire has only one ship.

Mr. DINGELL. The Cleveland Cliffs, M. A. Hanna Co., Republic Steel, and Shenango Furnace? Is it not a fact we will be giving a very large subsidy to the corporations which are doing a very large business in other fields than just in the carriage of waterborne boat transportation?

Mr. SPENCER. I certainly would not attempt to deny that presently 34 percent of the fleet on the Great Lakes is what you call a captive fleet.

Mr. DINGELL. What would you call a captive fleet?

Mr. SPENCER. It amounts to about the same thing, except we think of a captive fleet as one used by the owner to carry cargo for himself or for affiliated interests. I think under your definition anybody who produces coal, for instance, would be a captive fleet, or anybody who produces iron ore would be a captive fleet. It is just a difference in ideas.

Mr. DINGELL. I have no further questions.
The CHAIRMAN. The committee will stand adjourned until 2:15.

AFTERNOON SESSION

The CHAIRMAN. The committee will come to order. We will hear Mr. Sanford.

STATEMENT OF L. R. SANFORD, PRESIDENT, SHIPBUILDERS COUNCIL OF AMERICA

Mr. SANFORD. My name is L. R. Sanford. I am president of the Shipbuilders Council of America, a trade association of the shipbuilding and ship repairing industry of the United States. The council represents nearly all the major private shipbuilding and ship repairing organizations in the country, including those on the Great Lakes. It is on behalf of the Great Lakes shipbuilders that I appear here today, as an ore carrier replacement program on the Great Lakes is of vital concern to them, for reasons which I shall later set forth.

There are five shipbuilding companies located on the Great Lakes with facilities capable of constructing modern ore carriers. These companies are as follows:

> The American Shipbuilding Co., Cleveland, Ohio; The Christy Corp., Sturgeon Bay, Wis.; Defoe Shipbuilding Co., Bay City, Mich.; Great Lakes Engineering Works, River Rouge, Mich.; Manitowoc Shipbuilding, Inc., Manitowoc, Wis.

These 5 companies operate a total of 9 shipyards; the American Shipbuilding Co.—4—located at Buffalo in New York State; Lorain and Toledo, Ohio; and Chicago, Ill.; the Great Lakes Engineering Works—2—located at River Rouge, Mich., and Ashtabula, Ohio; and the Christy Corp., the Defoe Co. and the Maintowoc Shipbuilding, Inc.—1 each at their respective locations.

There are a total of 14 building berths in these yards available for the construction of moderate to large size lake ore carriers. At the present time, no ore carriers are under construction in any lake shipyard. All yards have supporting facilities in the way of shops, tools, equipment and technical staffs.

There are present here today representatives of several of the above companies. They are available to answer any questions which members of the committee may wish to ask them individually.

I would like to introduce Messrs. Ackerman and Williams of American Shipbuilding Co., Cleveland, Mr. Lineau of the Christy Corp., Sturgeon Bay, Wis., who are here today.

In order to correctly understand and evaluate the necessity for an ore carrier replacement program on the Great Lakes, a background in the form of a recapitulation of the world iron ore situation, as it affects the United States, is necessary. Hence I shall digress from the shipbuilders for the present and return to them later.

Until relatively recent years, the steel industry in the United States has depended for its basic ore requirements primarily on the ore ranges of northern Wisconsin, the Upper Peninsula of Michigan and eastern Minnesota. The best known and the largest is the Mesabi Range in Minnesota, but there are a number of others. Practically all of this ore moves by water out of Duluth, Minn.;

Superior, Wis., and other Lake Superior Wisconsin ports, and Escanaba, Mich., to lower lake ports on Lake Michigan and Lake Erie. In the case of the Lake Michigan ports delivery by water is made directly to the mills, whereas of the ore proceeding to Lake Erie ports only part is consumed at lakeside and the balance transshipped to the mills by rail.

There has been and is some ore imported from Sweden, Chile, Cuba, Mexico, and Canada, but in relatively small quantities with the possible exception of the Chilean ore which is delivered directly to the mills located on the coast of Baltimore.

In recent years, however, there has been a change because of the development of extensive iron ore reserves in Venezuela, Brazil, Liberia, Labrador, and Ontario. As these reserves have developed, the volume of ore imported into the United States has steadily grown.

It is undoubtedly both fortunate and opportune that new world sources of iron ore have been discovered and developed to supplement domestic production, as the potentialities in the Minnesota, Michigan, and Wisconsin areas for open pit operation, particularly in the Mesabi Range, are reported to be declining, and according to a recent authoritative forecast by Ogleby Norton & Co., Skillings' Mining Review, October 15, 1955, the 1957 anticipated production rate of some 46 million gross tons from these sources will dwindle to 12 million tons by 1982. To a very substantial extent that decline will be compensated for by taconite concentrates from low-grade ore, of which there appear to be unlimited reserves. About 7½ million tons of such concentrates are estimated for 1957 and 42 million by 1982.

The open pit gravity concentrates will taper off from 21 million in 1957 to 3 million tons by 1967, but the underground ore in the Minnesota, Michigan, and Wisconsin areas will hold up fairly well, declining only from 14 million tons in 1957 to 10 million tons by 1978.

Hence it is estimated that the total ore of all kinds from the Lake Superior district will diminish from 86 million gross tons in 1957 to about 67 million by 1982.

It might be noted here that production of iron ore in the northeastern, southern, and western districts of the United States will remain approximately constant at about 17 million tons annually up to 1984. This production does not affect the Great Lakes ore situation, but does affect overall potentialities for domestic iron ore.

As contrasted with decreasing domestic ore production, continued expansion of steel mill capacity, and continually increasing consumption, will call for steadily increasing amounts of ore for capacity blast furnace operation. It has been pointed out by Benjamin F. Fairless, the chairman of the board of the United States Steel Corp., that within the next 20 years there will be a 45 million increase in population. Assuming the same per capita use of steel products, this population increase alone will require a heavy increase in steel production and thus in the demand for ore. Furthermore, past experience indicates that the per capita use of steel will continue to increase. And, in the event of national emergency or war, the requirements for both steel and ore will further pyramid.

It seems unlikely that Venezuelan and Liberian ores will find their way by water to the Great Lakes area, although even that is possible with the opening of the St. Lawrence seaway. The main supplementary sources of supply for the Great Lakes ore movement, ex-

clusive of domestic sources, necessarily will be Canadian. There are presently two major ore fields in Canada, one located in the Labrador-New Quebec area and one in the Steep Rock area in western Ontario. There are some others the most important of which are the Wabana area in Newfoundland, the production of which is consumed partly in Sydney, Nova Scotia, and the balance exported to the United Kingdom and Western Germany, and the Michipocoten area, east of Lake Superior, part of the production of which is consumed by the Algoma Steel Co. at Sault Ste. Marie, Ontario, and the balance exported to the United States.

It is interesting to note that most of Ontario's output of iron ore is exported to the United States and, in turn, most of the ore used in Ontario blast furnaces is imported from the United States, so that a cross trade exists. On the other hand, most of the ore from Labrador-New Quebec is exported to the United States.

It seems reasonable to presume that in the future, most of the ore required at Lake Erie and Lake Michigan ore discharging ports to supplement declining domestic production in the Lake Superior area will come from the two principal sources previously mentioned, the Steep Rock area in Ontario and the Labrador-New Quebec area. Steep Rock ore moves via the Canadian National Railway to Port Arthur, Ontario, on the north shore of Lake Superior, and Labrador-New Quebec ore moves by rail to Seven Islands, Quebec, on the north shore of the Gulf of St. Lawrence. Ore loaded at Port Arthur can move directly to Lake Michigan and Lake Erie ore ports. However, ore moving out of Seven Islands presently can only move inland as far as Montreal for transshipment there, usually by barge, but, of course, can move directly to Atlantic coast ports. With the completion of the St. Lawrence seaway, ore from Seven Islands will be able to move directly to Lake Erie ports via the seaway, the vessel size being limited only by the size of the locks en route. Locks in the seaway are 800 feet long by 80 feet wide by 30 feet deep, whereas channel depths are 27 feet, resulting in a maximum draft of about 25 feet, 6 inches.

Both movements are foreign trade movements as far as the United States is concerned. Until the seaway is in use, only United States- and Canadian-flag ore carriers can participate in the Port Arthur trade, but ore carriers of any flag can load out of Seven Islands for United States Atlantic coast ports. Foreign-flag vessels, Canadian or any other flag, cannot participate in the domestic trade in the United States, as it is a protected trade for which foreign-flag vessels are not eligible. There is no restriction in Canada which would prohibit British and British Commonwealth vessels from engaging in the Canadian domestic trade. Efforts have been made in Canada to obtain a statutory restriction similar to that in the United States with respect to domestic trade, but so far without success. Efforts have also been made to limit by treaty the cross trades between United States and Canadian lake ports to United States- and Canadian-flag vessels, but with little prospect of success.

It appears, at present at least, that the St. Lawrence seaway will open the ore trade between Canadian and United States ports, or vice versa, to ore carriers of any flag and that the coastlines along the Great Lakes will become in fact extensions of the seacoast. In view of the lower cost of building ships abroad and the lower cost of

operating ships under foreign flags, it is evident that United States-flag ore carriers on the Great Lakes will be faced with vigorous low-cost foreign-flag competition in the transportation of ore from Canadian to United States ports, or vice versa, with the possibility, perhaps even probability, that substantially all of the production of ore from Canadian sources required to maintain an overall production reasonably commensurate with anticipated consumption in those domestic steel mills which rely upon lake-transported ore for operation may be transported in foreign-flag ore carriers. Such a situation well might operate to eventually reduce the level of American-flag ore-carrier capacity to that required only for the domestic ore movement, which, as heretofore indicated, can be expected to decrease year by year.

It should be self-evident that in the event of national emergency or war, the vital industrial capacity of the United States, based as it is upon steel, will depend on the ability of the United States lake ore-carrier fleet to transport ore to the lower lakes from both domestic and Canadian sources in sufficient volume to meet the requirements imposed under such conditions. That volume undoubtedly will be far in excess of the volume which would have been expected at that particular time under the normal acceleration of steel production. If such an emergency does arise, it is most likely that foreign-flag ore carriers operating on the Great Lakes or into the Great Lakes either will be ordered home for service of their nationals elsewhere, or, if on the high seas at the time, be prevented from returning to the Great Lakes, either by order, submarine blockade, or sabotage.

In any event, foreign-flag ore carriers, other than Canadian, operating on the Great Lakes during national emergency or war with alien crews would constitute a hazard which could not be tolerated, regardless of their nationality. It would be comparatively easy for a single act of sabotage to completely block the St. Mary's River, the locks at Sault Ste. Marie, the Welland Canal and/or other narrow congested waterways.

Two world wars have demonstrated beyond a shadow of a doubt that reliance upon foreign-flag shipping for vital water transportation in time of war is, at the very best, hazardous and undependable, regardless of the nationality of the carrier or the present or future friendliness, or otherwise, of the particular nation under whose flag the carrier sails.

With the opening of the St. Lawrence seaway, there will be foreign-flag competition for the transportation of ore on the Great Lakes or into the Great Lakes, not in the domestic trade of course, but in the trade from Canada or possibly other sources. This competition, even though it cannot participate in the domestic ore movement, can be of such serious moment and at such extremely low costs per ton mile, as a result of low capital and operating costs, as to seriously threaten the domestic ore movement, and even cause it to decline more rapidly than it would have done solely as a result of a diminishing domestic supply without foreign flag competition in the transportation of Canadian ores. So we must be prepared to accept the premise that foreign flag competition on or into the Great Lakes will affect domestic ore transportation by indirect competition, even though it cannot directly participate in that transportation.

Furthermore, with the St. Lawrence seaway open, it is entirely probable that foreign-flag ore carriers which engaged in the Great

Lakes trade will be diverted by their owners to other seagoing ore trades during the closed season on the Great Lakes instead of being laid up for the winter months, as is now customary for United States and Canadian ore carriers, thus enabling a greater annual return per vessel than if only operated on the Great Lakes during the open season. Combination ore and oil carriers could readily be diverted to the seagoing oil trade during the closed season on the Great Lakes. Such year-round operation would constitute not only another economic advantage for the foreign-flag carrier in competition with United States-flag lake ore carriers, but would further reduce the closed-season work available to lake shipyards who now are relying on such work to keep them in operation.

Operation of foreign-flag ore carriers or combination ore and oil carriers in seagoing trades during the closed season presupposes, of course, that such carriers are designed and constructed as seagoing carriers under applicable Classification Society rules. As seagoing ore carriers or combination ore and oil carriers, they perhaps would not be as suitable and as efficient for lake ore service as ore carriers designed and constructed for lake service only under Classification Society rules applicable to that service, but nevertheless they would be eligible for both lake and seagoing service. On the other hand, lake ore carriers cannot go to sea. Conditions on the lakes are different from those at sea and an ore carrier design for lake services has been evolved over the years. The Classification Societies have developed rules for that type of service, which differ from those for seagoing service. Lake ore vessel characteristics differ from seagoing vessels of that type. They are long and of relatively narrow beam for their length, with relatively low depths and drafts due to limiting depths of water in some of the channels encountered. The scantlings are lighter. The limit of service for lake type ore carriers eastward is the eastern end of Anticosti Island, on the north side of the island only, in the Gulf of St. Lawrence. I had intended to have a chart here to point it out to you but unfortunately it got mislaid. It will be noted from the map that Great Lakes type ore carriers thus may trade to Seven Islands for ore for Lake Erie ports. In other words, they could go that far east.

It is possible for any owner to have an ore carrier built abroad, to lakes scantlings and design, and deliver her under a special dispensation and certain temporary alterations to the Great Lakes. Thereafter, of course, she would not be suitable or eligible for seagoing service and would have to be laid up during the closed season. Furthermore, even if United States owned, she could not be operated in the domestic trade, but only in foreign trade, because of having been built abroad. She would undoubtedly be more efficient for lakes service than one of seagoing design, but would have a limited seasonal service compared with the year-round service of a similar ship designed and built for seagoing service, which would be most efficient in that service. The selection of a design resolves itself down to a question of economics for the owner to analyze and solve.

On the other hand, no statutory bar exists to prevent an American owner from constructing a United States-flag ship in a domestic shipyard, suitable for seagoing service, with the intent to utilize her on the lakes in the domestic trade during the open season, or even in the Canadian trade in competition with foreign-flag ore carriers,

and at sea during the closed season. However, there is an economic bar. The same economic factors which are compelling United States owners to build ore carriers abroad for seagoing service and operate them under foreign flags would apply, and would make it impractical to operate successfully in such a trade under the American flag. So there would be no economic justification for sacrificing the efficiency of a lake design, limited to 7 or 8 months' lakes service, for a lesser lakes efficiency but greater seagoing efficiency, thus providing an all-year-round service, if the seagoing service during the closed season proved unprofitable because of foreign-flag competition.

Having discussed the world ore situation and having made some references to ore-carrier design for specific trades, let us now take a look at the composition of the present lake ore-carrier fleet. The fleet was discussed by the Deputy Maritime Administrator, Rear Adm. Walter C. Ford, at the Senate committee hearing on March 14, and undoubtedly will be discussed today by a representative of the Lake Carriers Association—in fact, it was referred to by Admiral Spencer this morning—but some recapitulation may be in order here.

The ore fleet operating in the Great Lakes at the present time is predominantly a domestic fleet. Three years ago, in 1953, Mr. E. B. Williams, vice president of the American Ship Building Co., who is here today, made a careful analysis of the Great Lakes fleet of ore carriers and tabulated the vessels included in that fleet by age brackets. Of the 286 ore carriers at that time, 48 were at least 50 years old, and even though small, represented 10 percent of the annual capacity of the fleet. Of the same total of 286, 112 were between 45 and 50 years old. Over two-thirds of the fleet was more than 40 years old and virtually obsolete because these vessels were too old and too small to compete with modern ore carriers. They could not show a profit individually, except in some special trade. Yet they were depended upon to transport over half of the annual movement of iron ore.

This analysis was brought up to date in September of last year, 1955. Twenty-three of the vessels in the 1953 fleet had been eliminated, most of them scrapped. The remaining vessels, of course, were 2 years older. In that connection let me say Mr. Williams has revised that same chart up to the present time and he has a copy of it here with him which with your permission, Mr. Chairman, I would like to put in the record as an exhibit. It contains a very great deal of interesting information and if you desire to question Mr. Williams about it, I am sure he would be happy to tell you about it. This is the chart that I referred to.

The CHAIRMAN. It may be incorporated in the record.

(Large chart will be found in committee files.)

Mr. SANFORD. The more recent additions to the ore carrier fleet are vessels of from 18,000 to 20,000 tons capacity. These large vessels are the most economical, both on a construction cost per-ton basis as well as on an operating basis. Nevertheless, there are discharging berths up crooked channels along the lower lakes which the large vessels cannot reach, so that it is inevitable that some intermediate size replacements be included in any sound replacement program.

Mr. Williams' 1953 tabulation showed a potential annual capacity of approximately 110 million gross tons. A normal figure for that capacity would be about 90 million tons because of other factors,

including the grain and coal trades. He set up an estimated 1963 fleet, deleting all vessels aged 50 years or more, but retaining 35 of the larger 40- to 50-year vessels. All vessels zero to 40 years of age in 1953 were retained and moved up 10 years, and 18 new 20,000-ton vessels were added. This resulted in a total of 147 vessels with an annual potential capacity of nearly 80 million tons, but probably not more than 75 million normal capacity.

There has been only one new vessel added to the fleet since the 1953 estimate, the *George M. Humphrey*, delivered in October 1954. There have been no orders placed for any new ore carriers on the Great Lakes for the past several years. This is 1956, and 1963, the date this estimated fleet was computed, is not far away. An order placed now could not result in a vessel ready for operation before the 1958 season. So, of the 18 new vessels included in the 1963 estimate, only one has been constructed to the end of maintaining even a 75-million-ton capacity, much less than the present capacity. The other 17 must be ordered soon to keep up even with that low estimate, at the rate of at least 3 per year for 6 years. And if we are going to continue to be able to transport all the ore, in whatever form available, from domestic sources and even a substantial part of that from Canadian sources, we will have to construct new tonnage at an even faster rate of a least 5 to 6 new vessels per year. If we do not, there certainly will be presented to foreign-flag operators of ore-carrier tonnage a marvelous opportunity, even an invitation, to move into the Port Arthur and Seven Islands trades to lower lake ports as soon as the seaway opens. And that opening is not too far away. It is scheduled for 1959.

We should be planning now to stem the tide of a foreign-flag ore-carrier invasion of the Great Lakes. If we do not, we are jeopardizing the national security in that we will not have the minimum tonnage of ore-carrier capacity on the Great Lakes, or even elsewhere, to meet the demands of the steel mills entailed in a greatly expanded war-production program, particularly when the supply of ore from world sources other than Canada—the transport of which would be subject to great risk, even if tonnage were available to move it under such conditions, of which there is considerable doubt—might be completely stopped, or at least seriously curtailed.

It would seem that anyone who has given this subject any appreciable study cannot fail to realize the seriousness of the situation and the absolute necessity for the immediate initiation of an ore-carrier replacement program on the Great Lakes.

If that conclusion then is so self-evident, why is it that the owners and operators of ore-carrier fleets on the Great Lakes have not already initiated a comprehensive replacement program by placing orders for new vessels to fill the many vacant berths in the Great Lakes shipyards, not one of which is presently occupied with an ore carrier under construction?

It seems reasonable to suspect that the reason lies in the realm of economics and finance. New ships today are costly, very costly as compared with the costs of the ships to be replaced. And any market for the old ships other than scrapping or an occasional sale as a barge is virtually nonexistent. Hence, an adequate replacement program designed to upgrade the present ore-carrier fleet to a point where there is sufficient modern tonnage to meet all foreseeable requirements involves a very heavy capital investment.

There is naturally some hesitancy to invest so heavily in new ships at a time when the only ore cargo of which such ships are assured is is the domestic trade out of the Lake Superior area which, as already pointed out, is expected to decline steadily. There is no assurance that even new United States-flag ships can hold their own in the Canadian ore trade against the low-cost competition of foreign-flag ships. Although the importation of Canadian ore has increased in the past few years, the proportion of that trade transported in United States-flag vessels has decreased. This indicates that even now, before any other foreign-flag ore carriers have access to the lakes, United States-flag ships are having great difficulty in competing with Canadian-flag vessels. Canadian costs are substantially lower than United States costs. Ships of other foreign flags operate at even lower cost than do the Canadian ships. If we cannot hold our own at present against Canadian ships in the transportation of iron ore on the Great Lakes, what chance will we have when the seaway is completed and any and all foreign-flag vessels have access to that trade?

It is because of this adverse competitive situation, which already exists, and which will be greatly accentuated when the St. Lawrence seaway is opened, that lake owners and operators are bound to feel that some type of financial assistance should be made available to enable them to undertake an ore carrier replacement program.

While there are a number of statutory Government aids applicable to domestic shipping, the ones which can be relied upon to stimulate new construction of ore carriers at the present time are probably limited to:

1. Trade in of old ore carriers.
2. Accelerated tax amortization.
3. Mortgage loan insurance.

Mortgage aid is not available, although authorized by statute, because of present administration policy to restrict all financing of new-ship construction to private financing. Mortgage loan insurance is intended to assist in such private financing. In my judgment, accelerated tax amortization, if properly presented and justified, could be obtained even though in general such amortization is opposed by the Secretary of the Treasury.

It appears to be the position of shipowners and operators on the Great Lakes that the trade-in of old ore carriers is the real key to the solution of the construction cost of new vessels. It is to that point that the various bills here under consideration are directed.

Under the trade-in provisions of section 510 (d) of the Merchant Marine Act of 1936, the allowance for an obsolete vessel is based upon consideration of (1) the scrap value, (2) the depreciated value based upon a 20-year life, and (3) the market value in world trade or the foreign or domestic trade of the United States.

As a credit to stimulate new construction, none of these bases for trade-in values are adequate in respect to obsolete lake ore carriers. The scrap value certainly is not adequate and the depreciated value of a vessel 40 to 60 years old is negligible. There can hardly be an appreciable market value for an ore carrier confined to the Great Lakes, as that is the very trade in which we are striving to replace the obsolete vessel in question with new tonnage.

Hence, the various bills now under consideration propose, as the credit allowance for a traded-in obsolete ore carrier, the difference

between the cost of constructing the new replacement vessel in a United States shipyard and the cost of constructing such new vessel in the lowest cost foreign yard where vessels have been built or are likely to be built. In consideration of allowing such a credit on the new vessel, the United States acquires the traded-in vessel or vessels which, if still serviceable, are retained in an inactive status to form a national defense reserve fleet of Great Lakes vessels. Such a national defense reserve fleet of Great Lakes ore carriers, in the event of national emergency or war, would be of paramount importance in providing the capacity potential for transporting down the Great Lakes the ore required under such conditions, particularly if there should be, as is very likely under those conditions, a flight of foreign-flag ore carrier tonnage from the Great Lakes for any one or all of a number of reasons.

Ore carriers constructed in the United States exclusively for foreign trade are already eligible by statute for construction differential subsidies. While it has been the general policy of the Maritime Administration to grant construction subsidies only to common carriers and not to industrial carriers, that policy is purely administrative and could be changed. In fact, the Secretary of Commerce has already indicated that construction-differential subsidy aid could be made available to United States-flag bulk-cargo vessels in foreign trade.

H. R. 8886, 8894, 8996, 9008, 9030, and 9096 all propose to make the equivalent of such aid applicable to bulk-ore carriers engaged in trade on the Great Lakes in consideration of the acquisition of the older vessels to form the nucleus of a reserve ore fleet for use in emergency, in the interest of national security.

It is unlikely that any Great Lakes vessel owner or operator would be willing to construct new tonnage under a stipulation that it be limited either to the domestic trade, on the one hand, or foreign trade, on the other hand. He would want the option of utilizing the vessel to the best advantage as circumstances might indicate. S. 3108 recognizes this by providing that nothing in the proposed new subsection shall be construed as restricting the trade in which such new vessel may be used.

There is another method by which the objective of H. R. 8886 and the other bills could be attained. You will recall that during World War II, the Maritime Commission undertook the construction of 16 new ore carriers for the Great Lakes trade at the instance of the Office of Production Management. At that time, ironically enough, it was felt that the completion of these ore carriers would overtonnage the trade after the war and steps were taken for peacetime sterilization of a certain amount of old tonnage. In consideration of the acquisition of the new tonnage by Great Lakes operators, it was decided to allow as a credit for old vessels traded in the sum of $63.75 per gross ton of ore carrying capacity, with a provision for the charter back of the old vessels for the duration of the emergency, and a Government loan of not more than 75 percent of the cost, at the rate of 3½ percent per annum, payable in 20 years. At the present time, as a result of administration policy, Government loans are not available, but accelerated tax amortization and mortgage loan insurance probably could be made available. There is no occasion for any charter back of the old vessels, which will be placed in a reserve fleet for use in the event of national emergency.

The valuation of $63.75 per gross ton of ore carrying capacity was recognized then as in excess of the normal values of lake vessels of comparable age and type, but it was felt that the construction cost of new vessels was likewise excessive. Moreover, the conditions at that time were considered to be such that a market value of $63.75 per gross ton under such conditions could be justified. This reasoning subsequently was approved by the Comptroller General in an opinion dated February 17, 1943.

Today, there exists much the same situation. The new vessels are urgently needed from a national defense point of view. Their cost will be high, considerably more than double that of the vessels ordered by the Maritime Commission in 1941 as construction costs have increased more than 100 percent since that time. Financial help is required to enable their construction. There will be difficulty in establishing a world market price for obsolete lake ore carriers. Thus, it seems not only logical but conservative to increase the credit for the trade-in of these vessels at this time to twice that allowed in 1941, which still would be less than the ratio increase in the cost of new vessels. This would result in a credit for the obsolete vessels at this time of $127.50 per gross ton of ore carrying capacity.

If an arbitrary credit allowance of some such figure were authorized, the transaction would be simple, it would provide a substantial credit on the cost of new construction and it would expedite the program tremendously by avoiding the delays inevitably inherent in the determination of the difference between domestic and foreign costs of vessels of this type. It is deemed advisable, the program could even be limited, say, to the construction of 20 vessels during a 3- or 4-year period, after which the program and its method could be reexamined in the light of the effect of the opening of the St. Lawrence seaway upon the transportation of ore on and into the Great Lakes.

As of now, fast action is of the essence. Failure to so act may raise serious problems as to the survival of the lake shipyards in the absence of any new ore carrier construction during the next several years until the opening of the St. Lawrence seaway, and at the same time result in turning over the transportation of ore on or into the Great Lakes to Canadian or other foreign-flag vessels, because of lack of adequate competition by United States-flag vessels.

There is another angle to this latter possibility. Assuming that the capital investment in ore carriers as between United States and foreign flags can be approximately equalized by S. 3108 or other equivalent means, and the construction of such vessels is undertaken, there still remains the problem of the continued operation of United States ore carriers in foreign trade on or into the Great Lakes in competition with the low-cost operation of foreign-flag ore carriers. This problem in no way differs from the problem of maintaining United States ore carriers in service for the importation of ore from Venezuela, Liberia, and other foreign countries to coast ports which was discussed before this committee on March 14. Both are vital to the national security to assure that a continued supply of the ore necessary to implement a war production program will be transported in United States-flag vessels. If anything, the lake problem is entitled to preferred consideration because such transportation is less vulnerable to enemy attack and hence the most reliable source of supply.

Now, let us go back to the Great Lakes shipyards themselves, on whose behalf I appear here today. It may seem that I have covered a lot of ground before getting back to them, but, in my opinion, the background I have heretofore set forth is necessary to justify a program which will solve the problems of the shipyards.

It is not enough merely to say that the lake shipyards need new construction work in order to survive and that the shipbuilding potential of Great Lakes shipyards is necessary to provide a substantial nucleus for wartime mobilization. Both statements are factual, but it takes more than the mere statement of them to justify a Great Lakes ore carrier replacement program. There are too many other factors involved.

The shipyards on the Great Lakes operate under different conditions than those on the coast. Great Lakes water transportation is seasonal. The open season at very best is from about April 1 to November 30, not over 8 months out of the year, when navigation is open from the head of the lakes to Lake Erie ports. Practically all repair work, reconstruction, repowering, and so forth, is performed during the closed winter season. It is of prime importance to keep the vessels operating during the open season to make the maximum number of trips and thus transport the maximum quantity of ore. Repairs during that time are limited to emergency or casualty repairs. It will thus be evident that, in the absence of new construction, there will be a minimum of activity in the yards during the summertime and a maximum during the winter, resulting in a terriffic fluctuation in employment. Employment graphs in the shipyards are indicative of this most undesirable condition. Such a condition of fluctuating employment, with little assurance of permanency, tends to drain off the skilled employees to more stable industries. Not only is this so, but the age level of those employees who remain or who come back for the closed winter season is steadily increasing and the time will come when they will no longer be available. Under normal industrial conditions, the attrition due to age and disability is compensated for by the recruiting and training of young men to eventually take the place of the older men. It is self-evident that an industry with a highly fluctuating employment and frequent layoffs cannot offer much inducement for a young man to train as a skilled mechanic in that industry. Furthermore, many of the trades in shipbuilding and ship repairing are specialized crafts not available in other industry.

The Great Lakes shipyards have made a substantial contribution to the national economy, particularly in the Midwest. In World Wars I and II they made invaluable contributions to the war effort and unquestionably their services will be required again in the event of another national emergency. It is unthinkable that such an industry, so vital to the economy of the Great Lakes, and so indispensable to the basic steel industry, upon which the entire national economy depends because it provides the means of transporting the ore required for steel production, should be permitted to gradually wither away for lack of new construction orders for ore carriers, the need for which is conceded, with only the method of acquisition in question.

It is self-evident that a highly fluctuating employment condition does not lend itself to efficiency or economy of operation. The logical solution lies in a backlog of work extending through both the open and the closed seasons; in other words, on an annual basis. Such a

backlog would be provided by new construction work. While it would not entirely eliminate the fluctuations due to seasonable repair work, it would decrease the relative size of the peaks and depressions in the employment curve as between the closed and open seasons and would maintain that substantial nucleus of steady employment so necessary to retain skilled craftsmen and provide inducement for young men to enter training to become skilled shipyard craftsmen. It would improve efficiency and economy of operation, reduce the overhead expense chargeable to each job by expanding the workload, and thus decrease the cost both of repairs and new construction. It would assure, not only permanence of employment for skilled labor, but permanence of operation for the shipyard itself, thereby enhancing the national economy and strengthening the mobilization potential of the industry. Only by such an operation can existing facilities be maintained in good operating condition or be adequately replaced when obsolete or worn out.

Any Great Lakes shipbuilder here today can testify as to the violent fluctuation in employment between the open and closed seasons when dependent entirely upon repair or rehabilitation work during the closed season, and as to the necessity, from his point of view, for a more or less stabilized workload in the form of new ship construction to enable the shipyard to operate on an efficient and economic basis and to permit the management to make long-range plans for the maintenance and improvement of facilities, such as are necessary for a permanent and essential industry.

Mr. Chairman and members of the committee, I have endeavored to give you an overall picture of the necessity for an ore carrier replacement program on the Great Lakes, first by analyzing the present and prospective ore situation, both domestic and Canadian, second by outlining the problems of the lake ore carriers in respect to present and prospective foreign-flag competition, and third by indicating the present condition of the Great Lakes shipyards and some of the problems incidental to their survival. Each one of these general subjects is ultimately and inevitably involved in the opening of the St. Lawrence seaway to navigation and the effect thereof, but each of them also leads definitely to the conclusion that some action must be taken to stimulate an ore carrier replacement program on the Great Lakes now before the opening of the St. Lawrence seaway. The method of stimulating such a program is the real issue here. H. R. 8886 and the other bills propose a method. There may be other methods. I have indicated one. That method which accomplishes the most effective result in the minimum time at minimum expense to the Government is the one which should interest this committee, whatever it may be.

But there is no time to be lost. Action in this session of the Congress is definitely indicated. It will be in the national interest, as well as in the interest of all those concerned.

The CHAIRMAN. Questions, gentlemen?

Mr. PELLY. I would like to ask the witness how many ways are capable of building ships of 300 feet or more in the 4 shipbuilding companies, or the 5 shipbuilding companies, listed?

Mr. SANFORD. I stated at the beginning there were 14.

Mr. PELLY. In 3 years, then, we can anticipate that the capacity to build oceangoing vessels which would be necessary in the event of war would go up by that number?

Mr. SANFORD. With the opening of the St. Lawrence seaway, yes; that would be quite true.

Mr. PELLY. It also means those are available in the event of war for defense needs at a greater capacity?

Mr. SANFORD. That is right. In each of the wars we built a number of ships on the Great Lakes but they were limited. They had to be small to come out of the existing channels on the St. Lawrence or they had to go down the Mississippi River which was a complicated and time-consuming proposition. This would make the lake yards available for immediate delivery through the new St. Lawrence seaway to the seacoast.

To that extent it would provide additional competition for the Pacific coast yards and the Atlantic coast yards.

Mr. PELLY. Competition is a fine thing and saves the taxpayers a lot of money.

That is all.

Mr. ALLEN. I take it the reason for building these ships on the Great Lakes is in order that they may be in existence before the seaway is open, and the only way to get them up there is to build them up there at the present time?

Mr. SANFORD. That is not quite true. You say the only way to get them up there is to build them there. It would be possible to build a lake ore carrier on the coast. It has been done and taken up the Mississippi River. It is a complicated and expensive proposition because she has to go up under tow and she has to be lightered, and the topside has to be taken off and put back on again when she gets to the Great Lakes. It is not very practical and probably too expensive for a competitive situation.

Mr. ALLEN. The question was preliminary. The real question I have in mind is this:

After the seaway is opened and there is free access to the open waters, what then is to be the policy of the lakes in your estimation with regard to allocations of shipbuilding? Is it to be competitive with one location if it is competitively strong in getting construction work, or is it to be put around as a defense measure to preserve all of the skills that are involved?

Mr. SANFORD. Primarily, of course, the Great Lakes yards, speaking of them first, would be in open competition with all the other yards in the country once the seaway is opened, and they with the Great Lakes yards.

When it comes to a question of allocation of work as between the yards and the various sections of the country, I am not in a position to make any recommendation that way. As long as you have a free competitive market I don't think there can be any allocation.

There can be allocation by the Navy, of course, because they do have the power to allocate with Presidential approval, and they do it now, and they have done it in recent years.

As far as commercial vessels are concerned, there would be no question of allocation involved. As far as merchant vessels in which the Maritime Administration has some interest, I don't think even they have the power under existing law to allocate vessels to any particular part of the country.

It is quite true that under the law vessels built for operation out of the Pacific coast ports presently have the advantage of the 6 percent

differential, but that applies to a very limited number of vessels and it is not generally applicable.

Mr. ALLEN. It would be true, however, under the bills presented to the committee that even after the seaway is opened, any ships built under the provisions of these laws would be limited to construction in shipyards on the Great Lakes?

Mr. SANFORD. As far as these particular bills are concerned. I have indicated in my statement here that for that reason it might be desirable to put a time limit on this particular program which would carry it up perhaps to, or a little beyond, the opening of the seaway, and then reexamine the whole problem and see where we go from there.

The CHAIRMAN. Are you familiar with the situation on the coasts? How much complication will this bring into the existing operations on the coasts?

Mr. SANFORD. You mean in the domestic trade?

The CHAIRMAN. Yes.

Mr. SANFORD. I don't see it will affect the operation of the domestic trades. I do think this: I think we have to expect that if this bill, or some such bill as this, should pass which would provide help for the construction of lake ore carriers, that very possibly the operators in the coastwise and intercoastal trades will come in for similar help. If I were one of them I think I would.

The CHAIRMAN. That is what I am talking about.

Could you conscientiously support this and not support a subsidy construction program to the tramp fleet?

Mr. SANFORD. I think there is a little bit of difference. The difference as I view it is in this respect:

Here you have lake ore carriers operating on the Great Lakes primarily all in domestic trade, because we are pretty much forced out of the Canadian trade.

With the opening of the seaway, and even now but more so with the opening of the seaway, there will be more and more ore transported by either Canadian or other foreign-flag ore carriers. To the extent that the ore thus transported will increase, it will decrease the amount of ore transported from domestic sources in American-flag vessels. In that way you do have, I admit it is indirect, you do have indirect competition there which will be detrimental to the domestic lake ore carrier fleet which you do not quite have in the coastwise or intercoastal trades at the present time.

It seems to me that is about the distinction as I view it.

The CHAIRMAN. The former witnesses testified they wanted the privilege to use these ships not only in domestic trade but in foreign trade.

Mr. SANFORD. Any ship built in the United States for domestic trade is eligible to go into the foreign trade.

The CHAIRMAN. I am not raising that question.

Mr. SANFORD. There is no prohibition under the statute that I know of.

The CHAIRMAN. That is why I am asking you that.

Mr. SANFORD. The point is that most of these vessels, if built for the lakes trade under Great Lakes rules they are not eligible to go to sea. They are not suitable for sea service unless they are built for sea service.

The CHAIRMAN. How are these outside ships going to interfere with them, then?

Mr. SANFORD. Any oceangoing vessel can go into the Great Lakes. There is no prohibition there. But a vessel built on the Great Lakes or for Great Lakes service cannot go to sea because she is not built to seagoing rules but lake rules. Seagoing rules are much more stringent than lake rules, so the seagoing vessel can operate on the lakes but the lake vessel cannot operate on the sea unless she is built for sea service.

The CHAIRMAN. Don't you know just as well as I that the people will not build any more vessels confined to the lake if they can be used somewhere else and used on the lakes, also?

Mr. SANFORD. I know that, but the point is this: The vessel designed for Great Lakes service is far more efficient in that service than a vessel designed for oceangoing service would be in that service, so I think unquestionably the lake operators will continue to build vessels for the lake service built under lake rules which cannot go to sea for the simple reason that is the most efficient method of transportation on the Great Lakes, the cheapest cost per ton-mile.

The CHAIRMAN. When this new transportation comes along, are you going to provide the same benefit for the domestic carrier on the lakes in other forms of ship construction?

Mr. SANFORD. No, I cannot see why you should.

The CHAIRMAN. Then why should you do this, then?

Mr. SANFORD. Because as far as the domestic carrier on the Great Lakes—talking about other than the bulk carrier?

The CHAIRMAN. Yes.

Mr. SANFORD. That domestic carrier will have no competition because it is restricted to the domestic trade. Foreign-flag ships cannot compete with it.

The CHAIRMAN. You say, then, there is no special benefit granted in this bill to one group over the groups which already——

Mr. SANFORD. I wouldn't go quite so far as to say that. Probably there is a special benefit, but I think there is some pretty substantial justification for that special benefit. That is what you have to provide if you are going to put a thing like this through. You have to justify it.

The CHAIRMAN. How much change will there be in the entire operation in the lakes?

Mr. SANFORD. If I knew that, Mr. Bonner, I would invest some money right now. I am frank to admit I don't know. It will be a very substantial change. There is no question about it.

The CHAIRMAN. Will it not change the present custom of operation?

Mr. SANFORD. Not as far as the transportation of ore down the lakes is concerned. I don't think it will change that particularly. I don't see why it should.

The principal change will be in the introduction of foreign-flag ships into the Great Lakes for foreign trade out of Great Lakes ports to foreign ports, or from foreign ports into the Great Lakes ports.

Mr. DREWRY. Referring to what Mr. Bonner was just saying about other carriers in the Great Lakes, you say that they should not receive the same treatment because they would have no competition?

Mr. SANFORD. I don't know whether I should go quite that strong.

The CHAIRMAN. Some of these carriers are solely domestic carriers?

Mr. SANFORD. That is right.

The CHAIRMAN. These that will be built just as sure as we sit here will be solely domestic?

Mr. SANFORD. That is right.

The CHAIRMAN. You will make a difference between them?

Mr. SANFORD. There is a difference.

The CHAIRMAN. In one you can get a benefit and in the other you cannot?

Mr. SANFORD. I don't know what will happen in the future, but there is a difference.

The CHAIRMAN. Whoever sits here will have that question to answer. Whoever succeeds you or you will be back here.

Mr. SANFORD. Very certainly. There is no question but what the other domestic carriers, once this bill goes through, if it goes through, or something substantially equivalent to it goes through, they will be here asking for it. I have no doubt about that at all.

The CHAIRMAN. You are aware as well as we are of the continuing newspaper articles about the cost of this maritime business?

Mr. SANFORD. That is right. When you stop to consider the whole thing, as you know our domestic trades are in a pretty bad way, and they have been ever since the war. It may well be a question of Government policy which has to be resolved sooner or later, to what extent if any they are going to be helped if you want to reestablish the domestic trades.

After all, when it comes to a case of national emergency we have always before drawn a tremendous number of ships for war service from the domestic trades. If we don't have domestic trades they won't be there to draw on. That is a question of national defense.

The CHAIRMAN. Thank you, Mr. Sanford.

The CHAIRMAN. Our next witness is Mr. Gregory S. Prince, speaking in behalf of the Association of American Railroads.

STATEMENT OF GREGORY S. PRINCE, GENERAL SOLICITOR, ASSOCIATION OF AMERICAN RAILROADS

Mr. PRINCE. My name is Gregory S. Prince. I am general solicitor of the Association of American Railroads, with offices in the Transportation Building. I appear on behalf of the Association of American Railroads, the members of which operate more than 95 percent of the class I railroad mileage in the United States.

These bills propose to amend section 510 of the Merchant Marine Act, 1936, by adding to it a new subsection prescribing a special basis upon which the Secretary of Commerce may acquire obsolete vessels of a particular classification, namely, Great Lakes vessels designed to transport dry bulk commodities of specified types. As I read the present section 510 its provisions already apply to Great Lakes vessels and the Secretary of Commerce can acquire such vessels on the same terms as other vessels. The purpose, therefore, would seem to be to alter some of these terms insofar as they apply to these particular vessels.

The major change would seem to be in the basis for the determination of the credit allowance for the obsolete vessel. For all other vessels the basis is the "fair and reasonable value" of the vessel using certain specified criteria for the determination of such value. For

Great Lakes vessels these bills would substitute a formula based on the excess of the cost of building such a vessel in a foreign yard. Such a formula, of course, has no relation to the fair and reasonable value of the obsolete vessel. Assume, for instance, that you have an obsolete Great Lakes vessel the fair and reasonable value of which under the standards of section 510 (d) is $500,000 and that the cost of replacement with a vessel of the same tonnage built in a United States shipyard would be $8 million and built in a foreign yard would be $4.8 million. The allowance for the obsolete vessel in such a case under the existing statute would be $500,000 and under H. R. 8886 and the other identical bills before the committee, $3.2 million.

Now, Mr. Chairman, if I might interpolate at that point, when I selected those figures I did it on the basis of statements made in the Senate debate by the author of S. 3108, and in two places he made statements that differed slightly. In one instance he spoke of the cost of building in foreign yards being 40 percent of the cost in American yards and in another place he spoke of it in the sense that it was 40 percent less than in American yards. I used the more conservative figure which was 60 percent of the American cost for the foreign yards. But, listening to the witnesses this morning, apparently the cost of construction in the foreign yards is more nearly 40 percent than 60 percent of the cost of construction in American yards.

So, in the figures I have here it should be that the cost of a vessel built in a foreign yard will be $3.2 million and where you have $3.2 million as the allowance for the obsolete vessel it should be $4.8 million.

Furthermore, it should be noted that the formula for determining the allowance under these bills is substantially the same as the formula for determining a construction-differential subsidy set forth in section 502 (b).

Accordingly, I am forced to the conclusion that the effect of this bill is to grant substantially a construction-differential subsidy for the construction of Great Lakes dry bulk commodity vessels. However, by placing the construction subsidy in section 510, the necessity for meeting the conditions precedent to the granting of a construction-differential subsidy would be avoided. For instance the requirement of section 501 (a) that the new vessel be suitable for use by the United States for national-defense or military purposes in time of war or national emergency would be avoided. Perhaps it might be said that this is unnecessary because the bills before the committee require that the new vessel be capable by reason of design of transporting bulk commodities such as iron ore, limestone, grain, or coal on the Great Lakes and this would be the trade in which they would be utilized by the Government in such circumstances. However, this answer is not necessarily a sufficient one. Consider these facts:

First, the claimed necessity for this subsidy is to meet the competition of foreign vessels in the United States-Canadian trade, so presumably many of these new vessels would be used in that trade; second, most of that trade, I believe, involves or, after completion of the St. Lawrence Waterway, will involve movements to points east of the canals in that system; third, this waterway with its locks and dams will be a highly vulnerable structure and might easily be closed in time of war as a result of enemy air action or sabotage which would mean that a substantial number of the vessels would be unable to get

back into the Great Lakes; fourth, vessels designed for the transportation of bulk commodities on the Great Lakes cannot be operated safely on the ocean; fifth, during the last war every vessel on the Great Lakes suitable for operation on the ocean that could be gotten out of the Great Lakes was taken out, the reason being that overland transportation could substitute for Great Lakes transportation but it could not for transoceanic movement—then in time of war the most critical shortage is still apt to be in vessels for operation on the ocean. In view of these considerations, the best interests of the United States might very well demand modification of the design of the lake cargo vessel to render it capable of being used on the ocean. Admittedly, such a vessel might not be quite so efficient in its operations on the Great Lakes as the vessel designed solely for such operation but that would not seem to be a sufficient reason for subordinating the interests of the United States to those of the private operators when the Government is to contribute a subsidy of something like $3 or 4 million per vessel.

Another requirement of the law imposed in the interest of national defense that would be avoided by placing the construction subsidy for lake cargo vessels in section 510 of the Merchant Marine Act is the one contained in section 501 (b) requiring the plans and specifications for the proposed vessel to be submitted to the Navy Department for its approval upon a determination that the vessel is suitable for economical and speedy conversion into a naval or military auxiliary.

Another requirement of section 501 (a) that would be avoided is that of a prior determination by the Maritime Administration that the applicant for the construction-differential subsidy—

> possesses the ability, experience, financial resources, and other qualifications necessary to enable it to operate and maintain the proposed new vessel.

Why, if the best interests of the United States demand that such a determination be made before granting a construction-differential study for a vessel to be used in the foreign commerce of the United States, is it not just as important that such a determination be made in connection with the granting of a construction-differential subsidy for a vessel to be used in domestic commerce on the Great Lakes?

Another requirement that would be avoided by placing the construction-differential subsidy in section 510, and by all odds the most important requirement from the standpoint of the railroads, is that one that the vessel is to be used in the foreign commerce of the United States.

Supplementing the provisions of other sections of the act that limit applicants for a construction-differential subsidy to those engaged in foreign commerce, section 506 requires that every owner of a vessel for which a construction-differential subsidy has been paid shall agree that the vessel shall be operated exclusively in foreign trade with certain limited, specified exceptions, and where the vessel is operated in domestic trade within those specified exceptions the owner must repay the proportion of the subsidy attributable to the use of the vessel in such trade.

The policy of not subidizing vessels engaged in domestic commerce is a long-standing one that has withstood efforts on numerous occasions to extend outright construction or operating subsidies to vessels engaged in domestic commerce. The reason for the policy is a perfectly sound one and also a perfectly obvious one. In the first

place, the only justification for such subsidies in an economy based on the free enterprise system does not exist with respect to operators engaged in domestic commerce. The justification for construction and operating subsidies for operators engaged in foreign commerce is that they must compete with operators employing vessels built in foreign yards at much less cost than vessels built in United States shipyards and operated with much lower paid crews. However, as we know, no vessel may be engaged in domestic commerce other than a vessel built in and constructed and documented under the laws of the United States and owned by persons who are citizens of the United States.

Another very important reason for this sound policy is that vessels engaged in domestic commerce are in competition with the railroads and the granting of a subsidy to the operators of vessels in domestic trade would give them an unfair competitive advantage contrary to the national transportation policy declared by Congress, one of the principal tenets of which is equality of treatment for all forms of transportation. It is clear that the granting of subsidy to domestic water transportation in the manner proposed in these bills would be contrary to the general public interest and would work against the development and maintenance of a sound national transportation system.

The objective of the public interest in transportation is that the country be assured of a national transportation system capable of furnishing it at all times with the transportation it needs, of the quality it needs, at the lowest cost consistent with furnishing such service. In that objective the concern of the public is with the ultimate overall cost of all the transportation services provided rather than with the immediate cost to particular shippers of particular services. To reach that objective in a free-enterprise economy all transportation agencies should be required to stand on their own feet, deriving their entire financial support from the charges collected for their services.

The choice of shippers and travelers among competing transportation services will largely be determined by relative charges for the services rather than by relative costs of performing them. Unless, therefore, the rates charged by each mode of transportation reflect its true cost, we cannot hope for an economic distribution of traffic among the various modes, and it is only through an economic distribution of traffic among them that there can be any hope of developing and preserving the inherent advantages of each, as envisioned by the national transportation policy. To some extent in the case of all types of carriers, and to a marked degree in the case of the railroads, the unit costs of their services vary inversely with variations in the volume of their traffic. The inherent advantages of one type of transportation may thus easily be destroyed through loss of traffic to a less efficient type as the result of a wholly artificial advantage enjoyed by the latter because of Government aid. Such a situation must inevitably result in increasing the Nation's total transportation bill.

Certainly to justify the overthrow of a policy so obviously based on equity, justice, and promotion of the general public interest would require the submission of reasons of a very compelling nature.

Let us look at the reasons advanced in support of this measure. The principal reason given appears to be that with the opening of the St. Lawrence Waterway foreign vessels built and operated with cheap

labor will be in a position to compete more readily for the United States-Canadian trade. According to the author of S. 3108, a bill identical to those before this committee, in debate on the floor of the Senate on May 14, commerce in bulk commodities between the United States and Canada amounted to 23,250,000 tons in 1955 and such commodities carried in purely domestic commerce in that year amounted to 162,650,000 tons.

Now, Mr. Chairman, slightly different figures have been put in the record by other witnesses this morning, but they do not vary materially from these so far as the ratio between them is concerned.

The purely domestic commerce is 87.5 percent of the combined domestic and United States-Canadian commerce in these commodities. Accordingly, in order to protect American operators in their ability to compete with foreign operators for 12.5 percent of the business of the lake cargo carriers, they are given a subsidy on 100 percent of their business. If ever there was a case of the tail wagging the dog, this is it. If the purpose of this bill is to offset the lower cost of construction of foreign-flag vessels engaging in United States-Canadian trade then at least there should be included a provision such as the one contained in section 506 that would require the return to the Government annually of such part of one-twentieth of the construction-differential subsidy paid on a vessel as the gross revenue derived from the domestic trade bears to the gross revenue derived from the entire voyages completed during the preceding year.

One can only conclude that the amount of subsidy will greatly exceed that necessary to overcome the economic handicap resulting from the difference in cost of construction of vessels built in United States yards and those built in foreign yeards as to all vessels except those used exclusively in United States-Canadian trade. However, apparently the sponsors of these bills do not think that many of these vessels will be used exclusively in United States-Canadian trade because they say it is necessary for maximum efficiency to have the flexibility afforded by the opportunity to engage in United States-Canadian commerce on one trip and purely domestic commerce on another trip or to intermingle the two on a single trip. It is made amply clear that this freedom is to be permitted by the inclusion in the bills of the sentence reading:

> Nothing in this subsection shall be construed as restricting the trade in which such new vessel may be used.

Of course, if it were planned to use vessels solely in United States-Canadian trade there would be no occasion for these bills at all because, as I read the present statutory provisions, a construction-differential subsidy could now be obtained for the construction of a new vessel and an allowance received equal to the fair value for the turn-in of an obsolete vessel. Therefore, it seems to me one must conclude that considerably more is being sought under these bills than just a construction-differential subsidy. It is recognized, of course, that the ratio of 87.5 percent domestic to 12.5 percent international commerce will not be uniform for all vessels or all operators on the Great Lakes. Thus the subsidy may be 75 percent justified for one vessel and 100 percent unjustified for another. However, it is both necessary and fair to consider these bills in terms of their average effect. I believe the true effect of these bills can best be understood by an illustration. Using the example set forth earlier of an obsolete vessel with a fair

value of $500,000 turned in for an allowance of $3.2 million, the net amount of the subsidy would be $3.2 million minus $500,000, or $2.7 million because the owner has given up a vessel worth $500,000. Of this amount the operator needs 12.5 percent or $337,500 to offset the economic advantage of the foreign competitor resulting from the difference in the cost of construction of their respective vessels. The balance, or $2,362,500 would be excess subsidy.

It may be that what the proponents of these bills are trying to get is a lump-sum payment that will amount to both a construction-differential subsidy and an operating-differential subsidy all rolled into one prepaid amount. If the operators of our lake cargo vessels need a construction-differential subsidy in order to equalize their competitive opportunity with operators of vessels built in foreign yards, why would it not also be necessary to equalize with respect to operating costs? According to the theory of the construction-differential subsidy even after its payment to an American operator he is merely on a par with the operator of a foreign-built ship so how would the American operator be able to compete with the foreign operator whose operating costs, according to the author of the Senate bill, average less than 55 percent of ours? Obviously, if the construction-differential subsidy amounted to no more than enough to offset the difference in the cost of construction of the American vessel and the foreign vessel, an operating-differential subsidy would also be necessary in order to put the two on anything like a competitive basis.

No one has called a spade a spade by asking for an operating-differential subsidy but the nearest thing to a justification of this bill would be to concede that an advance lump-sum donation is to be made by the Federal Government in lieu of an operating subsidy. However, if such a proposal were openly and directly made I do not believe that the Congress would seriously consider it even for a moment. I do not have the information available to determine whether the excess lump-sum subsidy payment would be more or less than the sum necessary in the case of the vessel engaged in the average amount of United States-Canadian trade to offset the advantage of the lower operating costs of competing foreign-flag vessels. I suspect that for such an assumed average vessel the sum would be highly excessive. However, of this we can be certain, if the amount of subsidy on any given vessel should be approximately appropriate it would be pure coincidence. Another certainty is that the bill cannot help but be highly discriminatory as between operators. For the operator engaged in a substantial amount of international trade on the Great Lakes the amount of subsidy may or may not be sufficient to overcome the economic handicap of competing with foreign-flag vessels but for the operator engaged solely in domestic commerce on the Great Lakes, for whom the subsidy provided by this measure would be equally available, the subsidy would be 100 percent unjustifiable. I cannot but conclude that this measure is ill-conceived.

Let us examine a little further into the supposed need for this measure. We are told that at the present time there are about 343 Great Lakes bulk cargo vessels under United States flag and that of these approximately 100 are now 50 or more years old and by 1960 approximately 200 will be 50 or more years old. It was also agreed that approximately 300 ships would be eligible for the construction subsidy under the definition of an obsolete vessel prescribed in this

measure. These figures tend to convey the idea that our Great Lakes bulk cargo fleet is fast becoming obsolete and that this measure is necessary in order to spur the replacement of these obsolete vessels. It seems to me the committee should be interested in the extent of the potential cost of this program to the Government. According to figures used in the Senate debate on this measure on May 14 and conceded by the author of S. 3108 to be correct, approximately, the amount of the credit to be allowed on a new, modern lake cargo vessel would amount to approximately $3 million to $3½ million. Thus, there is a potential cost to the Government from this program of about $1 billion. However, other figures presented by the author of S. 3108 in the course of Senate debate and again here today tend to minimize very considerably the value of this measure as a means of overcoming the obsolescence of our Great Lakes cargo fleet. When questioned about the potential cost of the program, the author of S. 3108 stated several times that not more than 3 to 5 vessels a year would be built. If that estimate is correct, the cost of the program may not be enormous; but likewise the benefits to be derived from the bill in the way of overcoming the obsolescence of our lake cargo fleet will be small indeed.

There is one other consideration that I think this committee should have in mind in considering this measure. While I do not have the figures, I would guess that the major part of United States-Canadian trade after the completion of the St. Lawrence seaway will involve the movement of ore; and this movement will be a captive movement. In other words, most of the ore moving from Canada to the United States is owned and mined by companies controlled by United States steel and ore interests which are shipping the products to themselves in the United States in vessels owned or controlled by them. Thus, much of the foreign-flag competition is of their own making. The biggest movement of ore between Canada and the United States will be from Seven Islands, serving the Labrador field, to various United States ports on the Great Lakes and along the eastern seaboard. This ore is competitive for the most part with ore mined in the United States, which has moved in unsubsidized lake cargo vessels across the Great Lakes. Therefore, it would not seem that there is any compelling necessity for the movement of Canadian ore to United States ports in foreign vessels.

In order that our position in this matter may be entirely clear I want to state frankly that the railroads are not generally competitive with the Great Lakes carriers with respect to much of the movement of dry bulk commodities over the Great Lakes, but that is not so with respect to all such movements. For instance, the railroads are in competition with lake vessels with respect to certain movements of grain. Furthermore, we are even more deeply concerned by reason of the precedent you might be setting if this measure were to be adopted. In that event there would no doubt be protests regarding the discrimination in favor of lake vessels and demands would be made for similar treatment for intercoastal vessels and inland waterway vessels. All of the trade that such vessels are engaged in is, of course, trade for which the railroads are highly competitive.

I might say, Mr. Chairman, that the comments from the committee members themselves, I would say, tend to confirm my feeling in that regard.

This bill would constitute the first time that the Federal Government has subsidized the construction of vessels that would engage in domestic commerce. On every occasion in the past that such a proposal has been made the railroads have opposed it and we shall continue to oppose any such proposal in the future. Thus far, Congress has wisely seen fit to reject all such proposals. We sincerely trust that no such long-standing policy as the one here involved will be abandoned through hasty action and particularly through the vehicle of this bill which raises the issue in such an oblique fashion.

Before concluding it would not seem amiss to remind the committee that one of the arguments so long used in the advocacy of the St. Lawrence project was that it would provide the United States with a fourth seacoast. Now, it would seem that certain of these proponents do not regard this as an unmitigated blessing. They apparently would like the advantages that will flow from such a status but none of its disadvantages. To be more specific it was long argued that the competition of foreign vessels with United States lake cargo vessels in certain of their trade would be one of the unhappy consequences of the construction of the St. Lawrence seaway, but the representatives of this industry saw fit ultimately to withdraw their opposition to the construction of that project. It does not seem to me it leaves that industry in a very strange position to seek Government subsidy to overcome one of the disadvantages of this project—it would seem more appropriate that it consider foreign vessel competition a partial offset to the benefits to be realized.

If the committee should feel that the welfare of the United States Great Lakes shipping industry is seriously threatened, may I respectfully suggest that a solution be sought that does not, as this suggested one does, run counter to sound national transportation policies. The railroads maintain most cordial relations with the lake-carrier industry and have a very high respect for this very efficient mode of transportation with which to a great extent it operates in the very closest cooperation rather than in severe competition.

If their welfare is threatened we most sincerely hope that a remedy can be found but, on the other hand, we cannot sit idly by when a suggested solution of one of their problems, which is wrong in principle, threatens our welfare. In conclusion I call your attention to the fact that any threat by reason of the St. Lawrence Waterway will not materialize substantially until the completion of the waterway which is some 3 or 4 years distant, so that if you are presented with a problem that needs a remedy in the national interest, there is still time in which to seek a sounder solution than the one here suggested.

In the light of the above considerations, gentlemen, we respectfully urge that you not give favorable consideration to H. R. 8886, and the other identical bills before the subcommittee. The Great Lakes operator is still free under present law to apply for a construction-differential subsidy on any vessel that he will confine to United States-Canadian trade which, on balance, would seem to be the solution to the problem. However, if the committee should feel that the necessities of the situation are not met by requiring an operator to restrict the operations of a lake cargo vessel to foreign trade exclusively in order to qualify for a construction-differential subsidy, the very least that should be done is to require a return to the Government of the production of the construction subsidy represented by the use of the vessel in domestic trade.

That concludes my statement, Mr. Chairman.

The CHAIRMAN. These vessels would not be traded in for depreciated purposes in accordance with the vessels we now trade in for subsidy?

Mr. PRINCE. I am sorry, but I did not hear you, Mr. Chairman.

The CHAIRMAN. These vessels 50 years old, and a vessel now that we subsidize, when a vessel is traded in, we go all the way back in depreciation of the vessel.

Well, anyway, that will not come up. That is all right.

Any questions, Mr. Allen?

Mr. ALLEN. Mr. Chairman, I notice on page 2 of the bill in line 19 this language is used:

"The allowance on present or obsolete vessels may equal but shall not exceed the excess as determined by the Secretary of the fair and reasonable cost——"

As I read the bill, the limit which the Secretary might allow was the difference between the foreign and the domestic cost, but there was no indication in the bill that we should allow that whole amount.

Would it not be possible under the language of the bill if the policy of the Administrator or the policy of the Secretary were to allow the subsidy only to the extent that the vessel was to be used in competition with a foreign vessel, and that the results would be obtained under this bill in line with existing policy?

Mr. PRINCE. I would certainly think it would be more in line with existing policy, Mr. Allen, but I would be concerned that when that existing policy is spelled out in the act, as it is with respect to vessels engaged in foreign commerce, and was not spelled out in this bill with respect to the Great Lakes vessels, that the Secretary of Commerce would take that as an expression of policy on the part of the Congress that he was not to do that.

Do you follow what I mean by that, sir?

The CHAIRMAN. That is what I meant when I asked you the question earlier.

Mr. PRINCE. I am sorry, sir.

Mr. ALLEN. You would prefer that the Congress spell out the policy and leave the Secretary no discretion about it?

Mr. PRINCE. I would certainly think so, yes.

Mr. ALLEN. In your statement on pages 4 and 5 you refer to the policy of not subsidizing vessels to engage in domestic commerce. It seems to me that you left out one of the considerations which is in the opposite direction, but with which we are constantly concerned, and that is, the availability of these vessels for use by the Government in emergencies.

I think that we have a record of having obtained some 38 percent of the vessels immediately available for use in World War II in the coastal and intercoastal trades. It seems to me the operation of a policy with respect to having no Government assistance to operators that are in competition with other domestic operators is in opposition to a policy which requires vessels to be made immediately available. Would you like to comment on that phase of the situation?

Mr. PRINCE. I think that it is just a question of congressional policy and congressional determination, taking into account what appear to be two policies that run counter to each other to a certain extent—the one you speak of, the necessity and the importance of

having a merchant marine available in times of war and national emergency and the conflicting policy that you should not subsidize the merchant marine and thereby give it an unfair competitive advantage in domestic trade over unsubsidized land competitors.

I think that most people would agree in the abstract with the statement about the importance of having the merchant marine maintained when it is important from the standpoint of national defense.

On the other hand, I think those people would agree it is unfair and unsound from the standpoint of the domestic transportation policy.

Somewhere the two have to be balanced. We have felt that carrying your aid to the vessels engaged in domestic commerce to the point of giving them a construction differential subsidy, or operating differential subsidy, was carrying it too far. We have not appeared in opposition to many of the other measures that grant aid in one form or another to domestic carriers. We, ourselves, have the problem of trying to determine when we think our opposition to these bills is justified. We try not to look at it from just the narrow viewpoint of the railroads' own self-interest. We try to take a broader look at it. You will find that we have appeared in opposition to bills that go this far, but we have not appeared in opposition to many other bills that are in aid of the merchant marine.

The CHAIRMAN. What would be the book value of a vessel 50 years old?

Mr. PRINCE. Mr. Chairman, I frankly do not know. I do not have any idea.

The CHAIRMAN. I am of the opinion they must have paid for themselves several times.

Mr. PRINCE. I would think so.

The CHAIRMAN. Would be the value of a vessel 50 years old?

Mr. DREWRY. I would not know exactly. It certainly would be depreciated pretty far down.

The CHAIRMAN. What do you mean by "far down"?

Mr. DREWRY. I understand the Bureau of Internal Revenue has a way of pushing them along and leaving them some value.

The CHAIRMAN. There could not be any value after 50 years.

Mr. ALLEN. I think a partial answer is that a number of these vessels have been reengined and new equipment has been put into the vessels, so while the hull may be 50 or 60 years old a good many other parts of the vessel are not that old. And with reference to the new parts, there is undepreciated value left.

The CHAIRMAN. As the witness has brought out, this same thing would have to be applied to the Mississippi waterway.

Mr. BAUMHART. Mr. Prince, would you say there was any difference between the method of transportation and the competitive nature of transportation on the Great Lakes compared to intercoastal transportation?

Mr. PRINCE. Well, there certainly is some difference which I adverted to this morning, namely, the facility with which a boat might engage in domestic commerce one day and then continue on its journey and turn into a boat engaged in international commerce. That is not as likely to happen, as I would visualize it, along the various seacoasts, but it certainly is not so greatly different. I would expect the intercoastal and coastal shipping people to come in and ask for precisely the same type of an arrangement as is presented here.

Frankly, that is the main reason—and I want to be perfectly frank—we are here. We are not greatly competitive with the bulk carriers on the Great Lakes. We just cannot help but feel if they get what this bill would give them others are going to get it.

The CHAIRMAN. The domestic carriers in the Mississippi Basin and the operation off of Hawaii come in here, and I could not help but give them the same thing.

Mr. PRINCE. I feel that way. In fact, we feel that would be going too far in the form of subsidy aid to coastal and intercoastal shipping.

The CHAIRMAN. I want always to be fair here, or try to be fair, and that would be my position if this went into effect—apply this to all transportation. So you will be back when that comes up, I imagine. And I would look favorably on it if it came about that we did this.

Mr. BAUMHART. Your railroads coordinate in shipping much of our lake carrier activities. Do you feel, Mr. Prince, if there was this serious potential deterioration of the shipping on the Great Lakes, or carrying in bulk cargo, it would in any way affect your transportation to and out of those ports?

Mr. PRINCE. Frankly, I do not believe that it would affect us materially one way or the other. In other words, I think that we would be then providing the coordinated rail movement for foreign vessels coming into those ports perhaps instead of United States lake cargo vessels.

Mr. BAUMHART. It would be carried on under foreign-flag vessels rather than American vessels, that would be the only difference?

Mr. PRINCE. That is right. If this construction of the St. Lawrence seaway did give these foreign vessels an advantage in this trade to enable them to supersede the lake cargo vessels in that movement, then we would be providing subsequent transportation for them rather than after a haul by lake carriers.

Mr. BAUMHART. But in no way it lessens the critical situation of our American-flag vessels deteriorating and becoming obsolete?

Mr. PRINCE. Well, I still think you are going to have an enormous amount of American, purely American, trade, which will not be materially affected by this foreign competition. I recognize the indirect sort of competition that the witnesses referred to this morning, but you have to draw the line somewhere. There is going to be that sort of indirect competition of all manufactured goods. Many people opposed the St. Lawrence seaway on the theory that it would open up the heart of the country to manufactured goods coming direct from Europe that would be manufactured with cheap foreign labor. If you are going to provide the indirect type of protection against the competition of this foreign ore displacing American ore, it seems to me that you would be in the position of having to protect our manufacturers against foreign goods and give them a subsidy. I feel that you have to stop somewhere on this granting of aid and subsidies.

Mr. BAUMHART. I have no further questions except to thank you and the subcommittee for these hearings.

Mr. DREWRY. Mr. Prince, a couple of times in your statement and in your final paragraph, you say that the Great Lakes operators are still free under present law to apply for construction differentials or subsidies on any vessel confined to United States and Canadian trade, and that seems to be the best solution of the problem. How do you construct section 605 (a) of the 1936 act, the last sentence? I refer to the part which says:

No vessel operating on the Great Lakes, or the inland waterways of the United States, shall be considered for the purposes of this Act to be operating in foreign trade.

Would that not remove that prospect that you had in mind?

Mr. PRINCE. It sounds like it would, Mr. Drewry. I confess a slight unfamiliarity with these maritime laws. I tried to get as familiar with them as I could in a short time. That is one that I overlooked. It may be that in order to do what I say, you would have to make some amendment of that.

Mr. DREWRY. It was easy to overlook because it appears in the operating subsidy section of the act rather than the construction subsidy section, but I think that it clearly does remove that avenue.

Mr. PRINCE. Does it apply generally?

Mr. DREWRY. Yes. [Reading:]

No vessel operating on the Great Lakes, or the inland waterways of the United States, shall be considered for the purposes of this act to be operating in foreign trade.

So that would apply to a vessel built under title V.

The CHAIRMAN. Since it named both the inland waterways and the Great Lakes, to remove it you would have to strike out the inland waterways, and I made that observation at the beginning.

Mr. DREWRY. That is all.

The CHAIRMAN. We will adjourn the hearing this afternoon and we will resume the hearing the latter part of next week.

(Whereupon, at 4 p. m., the committee adjourned.)

GREAT LAKES BULK CARGO VESSELS CONSTRUCTION AND MAINTENANCE

MONDAY, JUNE 18, 1956

HOUSE OF REPRESENTATIVES,
SUBCOMMITTEE ON MERCHANT MARINE, OF THE
COMMITTEE ON MERCHANT MARINE AND FISHERIES,
Washington, D. C.

The subcommittee met at 10:20 a. m., pursuant to call, in room 219, Old House Office Building, Hon. Herbert C. Bonner (chairman) presiding.

Present: Representatives Bonner, Kluczynski, Dingell, Tollefson, Allen, Van Pelt, Ray, Mailliard, and Pelly.

Also present: Mr. John M. Drewry, chief counsel; and Mr. Bernard J. Zincke, counsel.

The CHAIRMAN. The committee will come to order.

The bill to be heard this morning is a continuation on H. R. 8886 and similar identical bills.

The CHAIRMAN. The committee will hear Mr. Morse of the Maritime Administration.

STATEMENT OF HON. CLARENCE G. MORSE, MARITIME ADMINISTRATOR, MARITIME ADMINISTRATION, DEPARTMENT OF COMMERCE

Mr. MORSE. Gentlemen, the bills, H. R. 8886 and H. R. 8894, and similar bills, would amend section 510 of the Merchant Marine Act, 1936, as amended, by adding a new subsection which would authorize the Secretary of Commerce to accept, as trade-ins, obsolete Great Lakes vessels in return for allowances of credit on new vessels. The allowance provided for in the bill is the difference between American cost and the estimated foreign cost of building the new vessel. This allowance is similar to the amount of construction-differential subsidy that can be granted under title V of the Merchant Marine Act, 1936, to aid in the construction of vessels which are to operate in the foreign trade except that the allowance is not limited to 50 percent of the construction cost of the vessel, and the bill makes no provision for repayment to the United States of any part of the allowance if the vessel is used in the domestic trade. The bill specifically provides that no trading restriction shall be placed on the vessel.

There is admitted herewith a list of vessels by companies which may be eligible under the bill for trade-ins.

(The list referred to follows:)

Great Lakes bulk carriers under United States flag which will be 10 years or older on Dec. 31, 1956 [1]

[3,000 gross tons and over]

Owner and name of ship	Year built	Gross tons (00 omitted)	Remarks
American Steamship Co., Inc.:			
Adam E. Cornelius	1927	82	
Ben W. Calvin	1911	75	
Consumers Power	1910	64	
Diamond Alkali	1917	84	
Dow Chemical	1912	66	
Edmund P. Smith	1908	60	
Fontana	1904	39	
George F. Rand	1908	49	
Harris N. Snyder	1907	66	
Harry Yayes	1909	51	
J. F. Schoellkopf	1907	73	
Niagara Mohawk	1905	61	
Norman J. Kopmeier	1906	66	
Sinaloa	1903	46	
Standard Portland	1909	51	
United States Gypsum	1910	66	
Total (16 ships)		999	
Amersand Steamship Corp.: *McKee Sons.*	1945	138	Sold under Merchant Marine Act, 1946, as amended. Sales price, $1,547,338.
Bethlehem Steel Co.:			
Bethlehem	1917	82	
Cambria	1910	63	
Elba	1907	48	
Lackawanna	1908	70	
Lagonda	1896	36	
Lebanon	1907	70	
Leetsdale	1896	38	
Lehigh	1943	91	Sold under Merchant Marine Act, 1936, as amended.
Leonard C. Hanna	1905	62	
Powell Stackhouse	1905	62	
Steelton	1943	91	Do.
Venus	1901	37	
William H. Donner	1914	63	
Williamsport	1908	43	
Total (14 ships)		856	
Brown Steamship Co.:			
J. J. H. Brown	1908	51	
James E. McAlpine	1908	51	
Total (2 ships)		102	
Bucheye Steamship Co., Inc.:			
Andrew S. Upson	1909	44	
George Stephenson	1896	39	
Harry Wm. Hosford	1903	52	
Harvard	1900	46	
Henry La Liberte	1908	70	
John T. Hutchinson	1943	88	Do.
Princeton	1900	45	
Simon J. Murphy	1900	42	
Sir William Fairbairn	1896	38	
Total (9 ships)		464	
Cambria Steamship Co.:			
Daniel J. Morrell	1906	78	
Edward Y. Townsend	1906	78	
Total (2 ships)		156	
Cargo Carriers, Inc.:			
Calumet	1097	46	
Harry R. Jones	1903	53	
Hemlock	1907	47	
Total (3 ships)		146	

[1] There would be no bulk carriers to be added to this list should the periods be extended to Dec. 31, 1957 and 1958, since no Great Lakes bulk carriers were built between 1947 and 1948.

Great Lakes bulk carriers under United States flag which will be 10 years or older on Dec. 31, 1956—Continued

Owner and name of ship	Year built	Gross tons (00 omitted)	Remarks
The Cleveland Cliffs Steamship Co.:			
Cadillac	1943	91	Sold under Merchant Marine Act, 1936, as amended.
Champlain	1943	88	Do.
Cliffs Victory	1945	93	Sold under Merchant Marine Act, 1946, as amended. Sales price, $1,004,681.
Frontenac	1923	82	
Grand island	1905	54	
H. L. Gobeille	1905	68	
Hennepin	1905	63	
Ishpeming	1906	70	
Joliet	1916	63	
LaSalle	1906	72	
Marquette	1906	50	
Michigan	1906	69	
Peter White	1905	62	
Pioneer	1907	63	
Pontiac	1917	82	
William G. Mather	1925	87	
Total (16 ships)		1,157	
Columbia Transportation Co.:			
Ben E. Tate	1902	40	
Buckeye	1901	43	
Charles W. Galloway	1910	63	
Crispin Oglebay	1908	77	
David Z. Norton	1906	55	
E. G. Mathiott	1902	36	
G. G. Post	1902	34	
Harry T. Ewig	1902	36	
Howard M. Hanna, Jr	1914	62	
J. Clare Miller	1906	66	
J. R. Sensibar	1906	73	
Joseph H. Frantz	1925	83	
O. S. McFarland	1903	37	
R. E. Moody	1903	37	
Robert J. Paisley	1901	43	
Sierra	1906	48	
W. C. Richardson	1908	49	
W. W. Holloway	1906	68	
William F. Stifel	1908	49	
Total (19 ships)		999	
Duluth Iron & Metal Co.: *B. F. Jones.*	1906	69	
Ecorse Transit Co.:			
J. P. Wells	1906	49	
Mataafa	1999	48	
Total (2 ships)		97	
Ford Motor Co.:			
Benson Ford	1924	82	
Henry Ford II	1924	87	
Total (2 ships)		169	
Gartland Steamship Co.:			
Frank E. Taplin	1908	47	
Joseph Wood	1910	64	
Sullivan Brothers	1901	44	
W. E. Fitzgerald	1906	49	
William H. Wolf	1908	64	
Total (5 ships)		268	
Great Lakes Steamship Co., Inc.:			
A. E. Nettleton	1908	66	
Charles Hubbard	1907	48	
Denmark	1909	54	
Finland	1906	68	
Horace S. Wilkinson	1917	83	
Hurlbut W. Smith	1903	41	

Great Lakes bulk carriers under United States flag which will be 10 years or older on Dec. 31, 1956—Continued

Owner and name of ship	Year built	Gross tons (00 omitted)	Remarks
Great Lakes Steamship Co., Inc—Continued			
J. Burton Ayers	1943	88	Sold under Merchant Marine Act, 1936, as amended.
J. F. Durston	1908	48	
J. H. Hillman, Jr	1943	91	Do.
John B. Cowle	1910	69	
John Dunn, Jr	1908	62	
Lyman C. Smith	1905	66	
Norway	1910	68	
Smith Thompson	1907	48	
Sweden	1902	43	
Total (15 ships)		943	
Hanna Coal & Ore Corp.:			
Edward J. Berwind	1924	83	
Emory L. Ford	1916	80	
Matthew Andrews	1923	91	
Total (3 ships)		254	
Hansand Steamship Cop.: *Joseph H. Thompson*	1944	122	Sold under Merchant Marine Act, 1946, as amended. Sales price, $1,547,338.
Huron Portland Cement Co.:			
John W. Boardman	1923	38	
Paul H. Townsend	1945	36	Sold under Merchant Marine Act, 1946, as amended. Sales price, $683,862.
S. T. Crapo	1927	48	
Total (3 ships)		122	
Huron Transportation Co.: *Persque Isle.*	1898	46	
Inland Steel Co.:			
E. J. Block	1908	69	
Joseph Block	1907	68	
L. E. Block	1927	91	
Phillip D. Block	1925	91	
Total (4 ships)		319	
Interlake Steamship Co., Inc.:			
Adriatic	1907	47	
Alex D. Chrisholm	1906	69	
Amasa Stone	1905	63	
Arcturus	1906	65	
Augustus B. Wolvin	1904	74	
C. H. McCullough, Jr	1907	59	
Charles M. Schwab	1923	79	
Col. James Pickand	1926	82	
Crete	1907	60	
D. O. Mills	1907	66	
E. A. S. Clarke	1907	62	
E. G. Grace	1943	88	Sold under Merchant Marine Act, 1936, as amended.
Fayette Brown	1910	64	
Frank Armstrong	1943	91	Do.
Frank Purnell	1943	91	Do.
Harry Coulby	1927	95	
Harry W. Croft	1908	64	
Harvey H. Brown	1908	68	
Henry G. Dalton	1916	85	
J. A. Campbell	1913	74	
James C. Wallace	1905	67	
Jay C. Morse	1907	69	
John Sherwin	1906	65	
Joseph Sellwood	1906	67	
Pathfinder	1906	68	
Robert Hobson	1927	80	
Samuel Mather	1926	82	
Verona	1907	59	
William McLauchlan	1927	80	
Youngstown	1920	80	
Total (30 ships)		2,163	

Great Lakes bulk carriers under United States flag which will be 10 years or older on Dec. 31, 1956—Continued

Owner and name of ship	Year built	Gross tons (00 omitted)	Remarks
International Harvester Co.:			
The Harvester	1911	72	
The International	1923	80	
Total (2 ships)		152	
Jupiter Steamship Co.:			
Cornell	1900	44	
Jupiter	1901	37	
Malietoa	1899	46	
Total (3 ships)		127	
Kinsman Transit Co.:			
C. S. Robinson	1906	68	
E. C. Collins	1904	41	
Harry L. Findley	1907	70	
La Belle	1909	65	
MacGilvray Shiras	1904	41	
Philip Minch	1905	59	
Total (6 ships)		344	
Merritt, Chapman & Scott Corp.:			
Wolverine.	1896	39	
Midland Steamship Line, Inc.:			
Baird Tewksbury	1914	65	
Carmi A. Thompson	1917	70	
John C. Williams	1906	67	
John W. Davin	1907	65	
W. G. Pollock	1906	49	
Total (5 ships)		316	
Midwest Steamship Co.:			
Norman W. Fox	1907	66	
W. Wayne Hancock	1906	68	
Total (2 ships)		134	
National Steel Corp.:			
Carle C. Conway	1907	65	
Edmund W. Mudge	1911	63	
George R. Fink	1923	82	
Thomas E. Millsop	1925	78	
Total (4 ships)		288	
Nicholson Transit Co.:			
James Watt	1896	39	
Penobscot	1895	40	
Perseus	1905	50	
Sonora	1902	38	
Sultana	1902	38	
Total (5 ships)		205	
Pioneer Steamship Co., Inc.:			
A. A. Augustus	1910	64	
David P. Thompson	1907	76	
Donald B. Gillies	1905	66	
Frank Billings	1910	55	
G. A. Tomlinson	1909	64	
Clarence B. Randal	1943	91	Sold under Merchant Marine Act, 1936, as amended.
Gene C. Hutchinson	1910	72	
J. J. Sullivan	1907	72	
J. S. Ashley	1909	70	
James E. Ferris	1910	55	
James P. Walsh	1905	53	
John S. Manuel	1910	55	
John Stanton	1905	63	
Price McKinney	1908	47	
W. H. McGean	1909	60	
William A. Paine	1905	58	
Total (16 ships)		1,021	

Great Lakes bulk carriers under United States flag which will be 10 years or older on Dec. 31, 1956—Continued

Owner and name of ship	Year built	Gross tons (00 omitted)	Remarks
Pittsburgh Steamship Co.:			
A. H. Ferbert	1942	103	
Benjamin F. Fairless	1942	103	
Enders M. Voorhees	1942	103	
Irving S. Olds	1942	103	
Leon Fraser	1942	103	
Total (5 ships)	------	515	
Red Arrow Steamship Co.: *Joe S. Morrow.*	1907	48	
Reiss Steamship Co., Inc.:			
A. M. Byers	1910	64	
Clemens A. Reiss	1901	44	
J. L. Reiss	1906	54	
John P. Reiss	1910	64	
Otto M. Reiss	1906	45	
Peter Reiss	1910	66	
Reiss Brothers	1924	82	
Richard J. Reiss	1943	91	Sold under Merchant Marine Act, 1936, as amended.
William A. Reiss	1925	83	
Total (9 ships)	------	593	
Republic Steel Corp.:			
Charles M. White	1946	91	Sold under Merchant Marine Act, 1946, as amended. Sales price, $102,944.
Thomas F. Patton	1946	91	Do.
Tom M. Girdler	1946	91	Do
Total (3 ships)	------	273	
River Steamship Co.:			
Ernest R. Johnson	1908	64	
Sparkman D. Foster	1905	64	
Total (2 ships)	------	128	
Rockport Steamship Co., Inc.:			
Charles C. West	1925	85	
John A. Kling	1922	68	
Total (2 ships)	------	153	
Shasta Steamship Co., Inc.:			
Shasta	1902	37	
Shenango Furnace Co.:			
Col. James M. Schoonmaker	1911	86	
Shenango	1909	80	
William P. Snyder	1912	86	
Total (3 ships)	------	252	
Tomlinson Fleet Corp.:			
Ball Brothers	1905	57	
Charles E. Dunlap	1920	83	
Cuyler Adams	1904	51	
James Davidson	1920	83	
James E. Davidson	1905	62	
Merton E. Farr	1920	83	
Rufus P. Ranney	1908	48	
Sumatra	1897	41	
Sylvania	1905	63	
Total (9 ships)	------	571	
United States Steel Co.:			
A. F. Harvey	1927	80	
Alva C. Dinkey	1909	77	
August Ziesing	1917	80	
B. F. Affleck	1927	80	
B. H. Taylor	1923	73	
Calcite	1912	40	
Carl D. Bradley	1927	100	
Clifford F. Hood	1902	42	
D. G. Kerr	1916	80	
D. M. Clemson	1916	74	
Elbert H. Gary	1905	66	
Eugene J. Buffington	1909	75	
Eugene P. Thomas	1930	79	

Great Lakes bulk carriers under United States flag which will be 10 years or older on Dec. 31, 1956—Continued

Owner and name of ship	Year built	Gross tons (00 omitted)	Remarks
United States Steel Co.—Con.			
Eugene W. Pargny	1917	84	
Francis E. House	1907	79	
George A. Sloan	1943	91	Sold under Merchant Marine Act, 1936, as amended.
George F. Baker	1907	77	
George G. Crawford	1907	77	
George W. Perkins	1905	66	
Governor Miller	1938	82	
Henry C. Frick	1905	68	
Henry H. Rogers	1906	77	
Henry Phipps	1907	77	
Homer D. Williams	1917	84	
Horace Johnson	1929	79	
Irvin L. Clymer	1917	72	
Isaac L. Ellwood	1900	52	
J. P. Morgan, Jr	1910	77	
J. Pierpont Morgan	1906	77	
James A. Farrell	1913	78	
James J. Hill	1900	53	
John Hulst	1938	83	
John W. Gates	1900	52	
Joshua A. Hatfield	1923	79	
Myron C. Taylor	1929	79	
Norman B. Ream	1906	77	
Percival Roberts	1913	77	
Peter A. B. Widener	1906	77	
Ralph H. Watson	1938	83	
Richard Trimble	1913	77	
Ruchard V. Lindabury	1923	79	
Robert C. Stanley	1943	91	Do.
Sewel Avery	1943	88	Do.
T. W. Robinson	1925	77	
Thomas F. Cole	1907	77	
Thomas Lynch	1907	77	
Thomas W. Lamont	1930	80	
W. F. White	1915	72	
William A. Irvin	1938	82	
William A. McGonag	1916	70	
William B. Dickson	1910	79	
William B. Schiller	1910	77	
William E. Corey	1905	65	
William Edenborn	1900	52	
William G. Clyde	1929	79	
William J. Filbert	1907	77	
William J. Olcott	1910	79	
William P. Palmer	1910	76	
Total (58 ships)	------	4,357	
Waterways Navigation Co.: *Ralph S. Caulkins.*	1902	40	
Wayne Steamship Co.: *Michael Gallagher*	1907	51	
Wilson Transit Co.:			
A. T. Kinney	1908	63	
Ben Morcell	1922	83	
C. L. Austin	1911	78	
Charles A. Paul	1907	64	
Charles S. Hebard	1906	62	
Edward S. Kendrick	1907	64	
Frank R. Denton	1911	78	
J. E. Upson	1908	63	
James Laughlin	1906	69	
Robert B. Wallace	1906	67	
Robert L. Ireland	1914	64	
Silver Bay	1917	70	
Thomas Wilson	1943	88	Do.
Valley Camp	1917	70	
Total (14 ships)	------	983	
Wyandotte Transportation Co., Inc.:			
Conneaut	1916	47	
Huron	1914	48	
Total (2 ships)	------	95	
Grand total (304 ships)	------	20,311	

Source: U. S. Department of Commerce, Maritime Administration, Statistics and Special Studies Office Ship Data Branch, May 29, 1956.

Mr. MORSE. Section 510 now authorizes the Secretary of Commerce to accept as trade-ins obsolete vessels, including Great Lakes vessels, which are at least 12 years old, in return for an allowance of credit equal to the value of such vessels. To the extent that the bill authorizes an allowance in excess of the value of the vessels, it would in effect provide construction-differential stusidy to aid in the construction of vessels that could be operated exclusively in the domestic trade. Such subsidy would be based upon the difference between American and foreign costs, but the resulting new vessel could be operated exclusively in a trade in which there is no foreign competition.

The legislation thus deviates from the principles of the Merchant Marine Act, 1936, applicable to trade-ins and construction-differential subsidy. In addition to the deviations mentioned, the requirements of existing law calling for construction suitable for national-defense use, for approval by the Navy, and for prior determinations by the maritime agency as to the ability of the operator are omitted. With respect to trade-in provisions, the requirements as to comparative utility value of the new vessel in relation to that of the trade-ins vary from existing law. Basically, the proposal involves a construction subsidy for domestic operations. Construction subsidy in the 1936 act is designed to put the American operator on a parity basis in meeting foreign competition, a principle that is not applicable in the case of the domestic trade. Under the 1936 act, a subsidized operator must repay a proportionate amount of the construction subsidy if he operates in the domestic trade a vessel constructed with construction-differential subsidy, and must also repay to the United States a proportionate amount of subsidy if he operates a vessel under operating-differential subsidy in the domestic trade (secs. 506 and 605 (a), Merchant Marine Act, 1936).

The legislation is, in effect, a disguised construction-differential subsidy using the device of an arbitrary and artificial method of fixing trade-in values. The Department of Commerce Review of Direct and Indirect Types of Maritime Subsidies, April 1956, examined and found the subsidies provided in the 1936 act to be direct and purposeful in carrying out the objective of the 1936 act of bringing merchant marine subsidies into the open. The legislation under consideration does not meet these tests.

It appears that the principal concern of the sponsors of this legislation centers in the ore transportation problem. A large fleet of specialized ore carriers has been developed to move iron ore from the Lake Superior area to the lower lakes ports. However, this fleet is composed largely of old ships, many of which are obsolete. Of the 356 Great Lakes bulk cargo carriers, 302 are over 25 years old and, by 1960, approximately 60 percent of them will be at least 50 years old. But even though this fleet of vessels is so old, no orders for tonnage of a major type have been placed currently with any Great Lakes shipbuilding yard.

I will interpolate at this point to say that I have no firm information on this fact but it is my belief that there has been one order contracted for. I mention it only because the bill is retroactive in period to any ship to be built after January 1, 1956, so that leads me to think that the bill is intended to pick up any contracts which are entered into subsequent to January 1, 1956.

There is need for a sound, long-range modernization program for the Great Lakes fleet of bulk carriers which are so important in the transportation of such large quantities of iron ore, coal, limestone, and grain.

The shipbuilding potential of Great Lakes shipyards will provide a significant wartime mobilization nucleus. At present, there are 15 ways on the Lakes capable of building vessels of as much as 18,000 to 20,000 deadweight tons. These 15 ways may produce up to 15 ships each year. In addition, shipyards on the Canadian side of the lakes will provide a valuable supply of shipbuilding facilities in time of national emergency.

The Maritime Administration ship-design program includes the design plans for a dry cargo bulk vessel which is intended to be not only a carrier of ore but also of other dry bulk commodities, including bauxite, grain, and coal.

We realize that the development of the St. Lawrence seaway has resulted in increased American interest in the ore trade. We anticipate that the opening of the St. Lawrence seaway will make Labrador ore more competitive with Lake Superior ore, and that foreign-flag ships will undoubtedly seek to capture the Labrador-United States movement. We recognize that any new Great Lakes replacement vessels would be largely engaged in domestic traffic within the Great Lakes, although they would probably spend part of their time in a Canadian-United States ore and grain movement. Owners will desire to have this flexibility of use to engage partly in foreign commerce of the United States and partly in domestic commerce.

The Department of Commerce study entitled "A Review of the Coastwise and Intercoastal Shipping Trades," published in December 1955, concluded that there is no present need or justification for construction-differential subsidy to aid in the acquisition of vessels to be operated in the coastwise and intercoastal trades, since foreign-built vessels are barred from competition in domestic shipping. Though this study did not deal specifically with the coastwise trade on the Great Lakes, the conclusion is applicable to such trade.

We have indicated that there is a need for a modernization program for the fleet of Great Lakes bulk carriers. However, other areas served by domestic shipping have comparable problems as to replacement of tonnage, and indirect competition through foreign supply. On the other hand also, Great Lakes operators have certain advantages arising from the ability to shift rapidly from domestic United States operation to translake Canadian-United States operation.

Subsidy to Great Lakes domestic operators would set a precedent for coastwise and intercoastal operators and, if subsidy were extended to operations in other domestic areas, serious competitive problems would arise. Certainly, such a step should be adopted only after most careful study of the consequences of this departure from the basic principles of the 1936 act. We will continue our studies in seeking rehabilitation and improvement of the entire United States shipping field, Great Lakes as well as the other coastal areas.

The Department recommends against favorable consideration of the bill.

The Department has been advised that the Bureau of the Budget recommends against enactment.

At the present time, Mr. Bonner, you are undoubtedly aware that under section 510 (d) we could take in these obsolete vessels and apply a credit against new construction. The purpose of this bill is to grant the owners benefits over and above the benefits which are now available under the 1936 act. Under section 510 (d) in arriving at this trade-in value, we must take into consideration scrap value, depreciated book value, world market value for either use in the domestic or in the foreign trade, but in all events it may not exceed a fair and reasonable value.

The proposed bill sets an arbitrary trade-in value of the difference between the foreign cost and the domestic cost of the new vessels. In other words, we are talking about roughly 40 percent subsidy to this new construction and that, of course, is very substantially in excess of the fair market value of the old vessels under any market.

The CHAIRMAN. Are there any questions, Mr. Allen?

Mr. ALLEN. Mr. Chairman.

Such a subsidy would, however, put these vessels in a competitive position with regard to the capital invested against the Canadian or other foreign-flag ships that might get into the ore trade, would it not?

Mr. MORSE. Certainly as far as other foreign-flag ships, and I am unaware of the cost differential of the Canadian-built vessels and the American-built vessels. I am sure that there is less of a differential than with respect to other foreign-flag vessels, but it would put them in a competitive position.

Mr. ALLEN. Are the Canadian vessels necessarily built in Canada?

Mr. MORSE. No, but there are shipyards there on the Great Lakes. I do not know whether there is a requirement that the Canadian vessels be built in a Canadian yard.

Mr. ALLEN. That circumstance could change with the opening of the waterway, I would assume?

Mr. MORSE. Certainly there will be more foreign-flag vessels and larger foreign-flag vessels entering the Great Lakes when the waterway is opened.

Mr. ALLEN. Is there any other law that requires the vessels to be built in a specific place, such as the definition of a new vessel here as being built in a Great Lakes shipyard?

Mr. MORSE. No, not in the 1936 act.

Mr. ALLEN. Thank you.

The CHAIRMAN. Mr. Kluczynski?

Mr. KLUCZYNSKI. I have no questions.

The CHAIRMAN. Mr. Van Pelt?

Mr. VAN PELT. I have no questions.

The CHAIRMAN. Mr. Ray?

Mr. RAY. Mr. Morse, you said the tonnage in years ahead is largely going to be ore, grain, and you mentioned 1 or 2 others.

Mr. MORSE. Stone, and 1 or 2 other bulk commodities.

Mr. RAY. How much of that is expected to be commerce between this country and some country other than Canada?

Mr. MORSE. I don't know that I can answer that, Mr. Ray. These ships, unless they are designed for oceangoing service, would normally trade only from a point on the St. Lawrence River inland from the sea, and I don't remember just what the point is, because most of these Great Lakes vessels are not designed for ocean service. They are not as heavily constructed, as strongly constructed, as an oceangoing vessel,

so that, unless they are designed for oceangoing service, they would be limited to the trade toward the mouth of the St. Lawrence seaway, the St. Lawrence River, inland.

Mr. RAY. A large part of the ore shipments come down from the Mesabi Range still, and some from Labrador?

Mr. MORSE. Yes. That is from Seven Isles and that is within the trading range of the Great Lakes vessels.

Mr. RAY. That must make a large part of the volume of traffic expected as well as part of what has been transacted there?

Mr. MORSE. Yes, it would be in volume, but the only overseas trade of a bulk nature would probably be grain.

Mr. RAY. I am trying to get a picture of what kind of business the ships were expected to do. Are they intended as replacements for ships?

Mr. MORSE. Yes.

Mr. RAY. And they would do the same kind of business that is now being done?

Mr. MORSE. That is my understanding.

Mr. RAY. Or is this the preparation for the new business that is coming with the canal?

Mr. MORSE. No, it is fundamentally a replacement for the existing vessels in the present trade. The trade will be expanded to carry more of that Labrador ore into the Great Lakes. It will still be ore carriage predominantly, coal and ore and stone and bulk grain.

Mr. RAY. Thank you.

The CHAIRMAN. Mr. Dingell.

Mr. DINGELL. Mr. Chairman, I would like to impose on the good will of the committee to ask our distinguished guest a question or two.

Mr. Morse, you mentioned that the bill as written is unacceptable. May I ask whether or not the Administration has given thought to amendments which would make this particular bill acceptable, or an alternative form of bill which would be acceptable to the Administration?

Mr. MORSE. I have not cleared this out with the Bureau or the Budget or the Department of Commerce, so that I am just speaking unofficially, so to speak.

At the present time, the last sentence of section 605 (a) precludes either construction subsidy or operating subsidy for vessels operated on the Great Lakes. If that section were deleted, we could provide construction subsidy or operating subsidy, but then in addition you would still have to make amendments to section 605 (a) and 506. Section 605 (a) prevents the payment of an operating subsidy to a vessel which is used in the domestic trade, with certain excepted voyages which are voyages transpacific or transatlantic which include intercoastal voyages; and 506 is the construction-differential subsidy section which again has a similar restriction on voyages of a domestic nature and also contains a provision that a waiver can be granted, but not exceeding a 6-month use in the domestic trade in any one year. There will have to be some working over of those two sections to make them appropriately applicable to the Great Lakes operation.

Mr. DINGELL. I know that this is a rather unfair question. I apologize in advance for it. May I ask this, sir, I know this is asking for a kind of seat-of-the-pants judgment. Do you think that amendments of the sort you have suggested would be acceptable to your Commission, to the executive branch, and to the Bureau of the Budget?

Mr. MORSE. If appropriate recapture provisions are contained in the bill which will recapture both operating subsidy and construction subsidy for the portion of the period that the vessels are used in the domestic trade, I don't see that there would be any serious objections certainly from my Administration.

Mr. DINGELL. You mentioned section 510, I believe, sir, of the act.

Mr. MORSE. Yes, sir. That is the trade-in section.

Mr. DINGELL. You say that that is presently applicable to Great Lakes cargo vessels of this sort?

Mr. MORSE. Yes, sir.

Mr. DINGELL. How would that particular section benefit these Great Lakes carriers? Would they receive a fairly substantial subsidy toward construction of new vessels under that section?

Mr. MORSE. Let me be equally candid, my friend, and say that I would not favor giving them a value in excess of their fair market value. I am reasonably sure that GAO would not concur in any valuation which exceeded a fair market value for the vessels on a trade-in basis.

I understand that during the war, as a means of encouraging replacement of some of the bulk carriers, the value as I remember of around $60 or $62.50 a ton was approved for a trade-in basis against these old vessels and that value was also approved by GAO. It was, frankly, an inducement to encourage more construction and additional construction on the Great Lakes, but, whether we could give any such value today is something we would have to look into very carefully.

Mr. DINGELL. It is mentioned that under this particular bill that these vessels would be kept in a defense reserve.

I note from your testimony and from other testimony which has been offered the committee that these vessels have an average age of something on the order of 40 or 50 years. Would those vessels be worth keeping as a defense reserve? Would a vessel of that sort be worth keeping for defense reserve?

Mr. MORSE. Most of them, as I understand, are approaching the point where they are no longer economically competitive.

Some of the vessels undoubtedly it would be preferable just to scrap, but I am sure that there are others that are adequately maintained so that it would be worthwhile keeping them as the national-defense reserve. The hull deteriorates very little if at all in the fresh water of the Great Lakes.

Mr. DINGELL. The situation would have to be governed by each individual vessel?

Mr. MORSE. Yes, sir.

Mr. DINGELL. This is again a rather unfair question. I want to apologize in advance. Under this section 510 which you mentioned, if a Great Lakes shipper were to ask for a construction subsidy under that particular section, would he have a reasonably good assurance of getting such a subsidy under present budget limitations and other things presently prevailing?

Mr. MORSE. I appeared at the appropriations hearings requesting the appropriations for construction subsidy and for trade-in. While at no time were any of the Great Lakes vessels specifically mentioned as being considered for construction subsidy or trade-in values, and I would want to check it out with GAO to be sure that there would

be no complications, I think the statute is adequately broad and I think the hearings before the Appropriations Committee were of a character which would not preclude either trade in of Great Lakes vessels or construction subsidy for Great Lakes vessels.

Mr. DINGELL. Let me ask you two more questions. Would there be a substantial objection in the executive branch of the Government to extending such subsidies to Great Lakes vessels?

Mr. MORSE. Before we get to that question, again bear in mind the fact that section 605 (a) precludes the construction subsidy or operating subsidy for Great Lakes vessels.

Mr. DINGELL. Section 510 would not then be applicable without some amendment to section 605 (a)?

Mr. MORSE. No, that is not so. Section 510 (d) is the trade-in section that I think would be applicable to any vessels in the domestic trade or the offshore trade.

Mr. DINGELL. How much per ton would be available roughly on one of these Great Lakes cargo vessels?

Mr. MORSE. I just cannot tell you offhand. The statute says we may award a fair and reasonable value taking into consideration these three standards: scrap value, the depreciated book value, and the market value.

Mr. DINGELL. Thank you very much, sir.

Thank you, Mr. Chairman.

The CHAIRMAN. Mr. Mailliard?

Mr. MAILLIARD. I have no questions.

The CHAIRMAN. Mr. Pelly?

Mr. PELLY. Mr. Morse, I notice that on the list of the bulk carriers which you furnished the committee with your copy of the testimony that there are some owned by the United States Steel Co. and 14 by Bethlehem Steel Co. I was wondering if those same companies are negotiating with you for bulk carriers in their other operations in the South American or other bulk-carrier trades.

Mr. MORSE. Not at all.

Mr. PELLY. Do they have such operations?

Mr. MORSE. Bethlehem has a fleet of approximately eight ore carriers that they use in the foreign trade. The United States Steel Co., to the best of my recollection, employs predominantly foreign-flag vessels in the foreign trade.

Mr. PELLY. These 304 vessels that are listed, you say, are predominantly designed for lake service and would not be so constructed that they could go to sea when the St. Lawrence seaway opens up. They could not go out, you say?

Mr. MORSE. That is my understanding, but I think someone perhaps could answer that. I am sure that that is the fact because, to be designed for oceangoing service they have to have a different structural requirement than they do for the Great Lakes service.

Mr. PELLY. How about the Labrador service? Is that considered?

Mr. MORSE. That would still be acceptable for these Great Lakes vessels because the rail terminus is at Seven Isles within the St. Lawrence River.

Mr. PELLY. I have no more questions.

Mr. ALLEN. Mr. Chairman.

The CHAIRMAN. Yes.

Mr. ALLEN. Going back to this definition of a new vessel in the second subsection there, as a vessel that—

is capable by reason of design of transporting bulk commodities such as iron ore, limestone, grain, or coal between ports on the Great Lakes, including the whole of the Saint Lawrence River and the Gulf of Saint Lawrence as far east as a line drawn north and south through the west end of Anticosti Island—

if a seagoing ore carrier were suitable in size for getting through the St. Lawrence seaway, would it fit that definition of capability?

Mr. MORSE. There is no question in my mind but that an ocean-going bulk carrier could trade to the Great Lakes assuming it can get through the locks.

The question is whether this definition is intended to exclude vessels of that character and be limited only to vessels which are designed as Great Lakes vessels.

I am inclined to think that it was to provide this subsidy only for strictly Great Lakes vessels.

Mr. PELLY. I believe that that may be what we think are the intentions, but I am wondering if the language itself is sufficient to impose that limitation.

Mr. MORSE. I think it is not because elsewhere in the bill it specifically says that there shall be no trading restrictions on the vessels.

Mr. PELLY. It would follow then, would it not, that these ships could be built in the Great Lakes shipyards as seagoing transports and ultimately compete with all other American bulk carriers?

Mr. MORSE. Yes, sir.

Mr. PELLY. Thank you.

The CHAIRMAN. Is this bill sponsored by Bethlehem Steel and the other steel companies?

Mr. MORSE. I think you had better inquire of the Congressman who introduced the bill, Mr. Bonner. I don't know.

The CHAIRMAN. You answered the question that they had not made a request for similar treatment on the offshore coastal vessels.

Mr. MORSE. There have been no applications filed for construction subsidy on the offshore vessels.

The CHAIRMAN. If that was the case it would have to be made applicable to the coastal trade, would it not?

Mr. MORSE. I would think so, to give fair treatment to other domestic operators.

The CHAIRMAN. Mr. Dingell.

Mr. DINGELL. Thank you, Mr. Chairman.

This is along the same line as the question just asked by our chairman. As you are no doubt familiar, there are a large number of captive vessels on the Great Lakes. By that I mean vessels which are owned by large corporations or firms which are engaged principally in other forms of business which use this just to transport some of the byproducts of their operation or some of the raw materials of their operation. For example, on this list which you furnished us I believe there are listed, for example, Cleveland Cliffs and Ford Motor Co. and Huron Portland Cement and the Hanna Coal & Ore Corp. If we pass this bill in the form that it is in, it appears fairly certain that these large corporations which use these vessels just incidentally to their overall operation will receive a very substantial assist in the form of a governmental subsidy. Am I correct, sir?

Mr. MORSE. Anyone who would come in under the bill would certainly receive a very substantial assist.

Mr. DINGELL. Is there any safeguard which we could place in this bill which could make it certain that the bill would benefit the small

operators on the Great Lakes and yet that it would not offer a subsidy to large corporations which are not primarily engaged in the shipping business? Is there any way that that could be done?

Mr. MORSE. I am sure it could be done by appropriate language which would preclude the assistance from being available to anyone other than the company which is engaged exclusively in the transportation business; for example, having no other affiliation of any character.

Mr. DINGELL. Mr. Chairman, I want to thank you and the membership of the committee for your courtesy this morning. Thank you.

The CHAIRMAN. The committee will now proceed to hearing on S. 1833.

(The following telegrams were furnished for insertion:)

CLEVELAND, OHIO, *February 13, 1956.*

Hon. HERBERT C. BONNER,
Chairman, Merchant Marine and Fisheries Committee,
House of Representatives, House Office Building,
Washington, D. C.:

We, the undersigned shipbuilders on the Great Lakes, have been very much encouraged by the introduction of a bill to encourage the construction of modern Great Lakes bulk-cargo vessels by Congressmen Cederberg and Baumhart of your committee. This bill shows a great understanding of the difficult, perplexing problem facing the shipbuilders on the Great Lakes, and we sincerely request that your committee give early consideration to the measure and be assured of our full cooperation at that time.

DEFOE SHIPBUILDING CO.,
By H. J. DEFOE, *President.*
MANITOWOC SHIPBUILDING, INC.
By W. L. WALLACE, *President.*
THE AMERICAN SHIPBUILDING CO.,
By R. B. ACKERMAN, *President.*
CHRISTY CORP.,
By C. R. CHRISTIANSON, *President.*
THE GREAT LAKES ENGINEERING WORKS,
By CHARLES HASKELL, *President.*

COLORADO SPRINGS, COLO.

Representative HERBERT BONNER,
House of Representatives, Washington, D. C.:

Committee of American Steamship Lines respectfully requests you record their opposition to the amendment to S. 3108 which would affect competitive bidding and unnecessarily complicate placement of construction contracts.

A. PURDON, *Executive Director.*

(Whereupon, at 10:50 a. m., the committee proceeded to other business.)

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